Economic Affairs / A Monthly Analysis

A special supplement to CHALLENGE

April 1, 1961

OPTIMISTIC TALK and pessimistic statistics are the order of the day. Observers see an upturn around every corner. But even simple economic adjustments take some time to work themselves out, and they are invariably painful. This adjustment is not a simple one.

Predictions of an upturn in June appear together with news of no upturn in the Index of Industrial Production—now down to 102% of its 1957 level and 8% off its peak. Unemployment is up to 6.8% of the labor force, even though total employment is at a record high. The March stock averages zoomed while corporate earnings in manufacturing and merchandising fell off.

We are caught in a mixture of short-term and long-term forces. The chief short-term force is a general inventory liquidation. The long-term forces are activated by a change in the kinds of goods and services this country produces, and the way in which we produce these things.

The inventory liquidation is groping its way toward bottom. In the fourth quarter of 1960 inventories were declining at an annual rate of $3 billion, yet the nation's ratio of inventories to sales was higher then than in the fourth quarter of 1959. Trouble is, the bottom won't stay put because sales are weak. But, the fact that the rate of liquidation in some industries is slowing down is a hopeful sign.

Automobiles provide the worst example of excessive inventories. In the first quarter of 1961 dealers found themselves with over a million cars in stock, despite a level of production that was half of last year's rate.

What we produce is undergoing a long-term change. With our aid, Western Europe and Japan have rebuilt their industries. At the same time, we have filled the homes of our own consumers with durable goods. The result: even when we recover from the short-term cycle, many industries will find that they have plenty of capacity and do not need to invest in much new plant and equipment.

It is this kind of investment that produces the most vigorous booms. No substantial increases in business investment are likely for the next 18 months.

Automation is changing the way we produce things. The introduction of labor-saving machinery means new investment, often in new areas of the country. This adds to the problems of economically declining areas and long-term unemployment.

Undoubtedly, the government will face political pressure to "do something" about these problems. And the pressure won't come from labor unions alone.

The upturn, when it comes, will make the transition easier. The Kennedy Administration is now using its monetary and fiscal powers as stimulants, and it will do more until the economic indicators start pointing up. American industry has always shown great flexibility in the past and can respond to new opportunities as they appear. Today's adjustment provides the base for tomorrow's growth. But it would be well to remember that not everyone will grow at the same rate.

SPECIAL CORRESPONDENCE—Two-thirds of President Kennedy's "first 100 days" are over, but no great rush toward the New Frontier has developed. The Administration has simply failed to communicate a sense of urgency to Congress.

On the domestic front legislators are inclined to go along with the majority opinion that the recession will come to an end by midyear. On the foreign front the relatively quiet deportment of the Russians has temporarily taken the edge off the cold war. The need for immediate decisions has waned, at least psychologically.

The New Frontier has run head-on into old basic disagreements. Medical aid for the aged and federal aid to education have raised issues that may not be resolved for years to come. Minimum wage legislation will emerge as a compromise. Only the depressed areas bill will move through without trouble.

The bulk of Administration moves to fight the recession will come from Executive action. Many in Congress feel such action will be sufficient and hope that further large expenditures will not have to be authorized.

The Kennedy foreign policy has not been substantially different from the previous Administration's, and will not be until the fall. What to do about China is the problem plaguing the State Department. What the U.N. will do about China 6 months from now will set the tone of any new U.S. policy.

Conviction of several electrical equipment manufacturers on price-fixing charges will have repercussions for years to come. The Justice Department, FTC and several Congressional committees intend to keep digging into industry prices, especially where sales to the government are involved.

Another consideration in these investigations is that alleged noncompetitive price determination might have contributed to the pricing of U.S. goods out of world markets, thus aggravating the balance of payments problem.

A report by the Senate Commerce Committee takes a slap at increasing protectionist sentiment by recommending across-the-board tariff reductions. This is coupled with a recommendation for "adjustment assistance" to industries adversely affected by foreign competition. More subsidies.

This tariff issue is bound to get hotter. The Amalgamated Clothing Workers will boycott Japanese goods starting May 1, in spite of the objections of the parent AFL-CIO. This is another instance of domestic problems being aggravated by considerations of foreign economic policy. This is also a part of the "shakedown" the American economy is experiencing in general. Easy solutions are not in sight.

Where the U.S. economy fits into the structure of some kind of an integrated Western economy is another thing to think about.

That such integration will eventually become necessary seems likely in the face of the growing Soviet economic bloc. The Common Market has become the nucleus of such a development. Britain finds it difficult to remain outside the CM. Macmillan's proposal that the U.S. join in a program to explore Western economic integration is the first step in a grand plan to bring Western Europe, the Commonwealth and the U.S.A. into an economic alliance.

Greece is also having balance of payments problems. Her alternatives are membership in the Common Market or more assistance from the United States.

The Kennedy "bull market" seems to be activated by the expectation of increased government spending and a desire to seek shelter against more inflation.

COVER BY HOWARD WINTERS

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Editorial

THE SURPLUS STORY

We hear a great deal these days about surpluses. The surplus capacity of some major industries has been well publicized. Farm surpluses have been plaguing administrators for more than three decades. In recent years considerable attention has been called to the world population explosion, with all that this implies in terms of surplus human beings. And now, most recently, it has occurred to some that the United States may have a surplus of workers who cannot find steady employment even during good economic times.

Newspapers and other media frequently use the terms "technological unemployment," "depressed areas" and "hard core unemployment" to describe what has become for some a chronic inability to get steady work. Some would describe the affected individuals as "superfluous workers," a descriptive enough term, though perhaps a little too frivolous to apply to people caught in an unfortunate and, most often, uninvited situation. The fact is, however, that there are about 1.5 million adults in the labor force who cannot earn a living because (1) they are stuck in outmoded occupations, and/or (2) because they cling to environments that offer little opportunity for economic betterment.

Because our society has a highly developed national consciousness, there is the general feeling that something should be done to alleviate the lot of those subjected to chronic unemployment. The rationale of this desire to do "something" runs the gamut of human, political and economic considerations. For example, we say that in a relatively affluent society no individual should be allowed to fall below a prescribed floor of subsistence. Or, we say that we can ill afford to allow even a small part of the labor force to remain unproductive. Or, we say that it would be unfair to leave a small minority by the wayside while the majority continues to better itself materially.

And when we say all these things, what we are really saying is that we wish to accept public responsibility, at least to a degree, for the individual welfare. In the case of our surplus workers, we have passed legislation to extend unemployment compensation and to make additional monies available for the children of unemployed breadwinners. We have designed legislation to make federal funds available for an improvement in the economic potential of currently depressed areas, where the bulk of our surplus workers are domiciled.

In short, we are gradually developing a national policy for dealing with a condition that offers no prospect for easy or quick solution. One wonders whether this developing policy to alleviate the problems of surplus workers will be any more effective than our long-standing policy on surplus farm products.

Our farm policy has been something of a fiasco because we have never officially admitted that there are too many farmers. Ever since the Federal Farm Board of 1929, public action and support has revolved around the idea of keeping the farmer where he is—on the farm. We have paid the farmer for raising crops that cannot be consumed. We have paid him for not raising crops. And by a hundred and one devices we have supported prices that would otherwise fall in a free market. Through such policies we have kept the benefits of the technological revolution on the farm from filtering down to the consumer.

In spite of these supports, payments and loans, the truly small, independent farmer has still had a hard time, so much so that one of every three farmers has quit since the 1930s. Gross distortions of the intent of this public policy have become numerous. In a recent year 297 recipients of price-support loans got anywhere from $250,000 to $1.5 million each. Three so-called farmers received more than the government loaned to all farmers in the states of Delaware, New Jersey and Pennsylvania combined. The net effect of our solutions to the farm problem has been an accumulation of $11 billion worth of surpluses in every conceivable kind of storage facility the government can find.

. . . on the farm and off

I am very much fearful that the experience we have had in coping with our farm surpluses will be duplicated in our attempts to handle our surplus labor problem. There are too many similarities for comfort. It would appear now that we wish to deal with the surplus labor problem by making it easier for these people to remain in areas where they are surplus. Our approach to the depressed areas problem is to create government-sponsored inducements to bring industries to places where industries would not normally go.

As in the instance of farm surpluses, we are framing a policy that will counter the natural tendencies of the economy. There is no reason to believe that the lack of success we have experienced with farm surpluses will develop into a different story in the case of labor surpluses. The realistic solution to both problems is to make it possible for people to extricate themselves from their unhappy circumstances.

If we must spend public funds to support individuals, why can't we spend such monies on retraining and relocation? No one should be forced into retraining or relocating, but these options should at least be made available. Wouldn't this be better than spending billions to perpetuate adverse conditions that cannot logically or naturally better themselves?—H. B.

LETTERS TO THE EDITOR

CHALLENGE invites your comments. Address letters to CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.

GLAMOUR STOCKS

• This letter is in response to Sam Shulsky's article, "The Year That Glamour Faded" [February, 1961]. My letter might be entitled "Wall Street in 1961: Glamour Reborn."

Although earnings and dividends in the long run certainly determine stock prices, psychological factors have a much more profound influence in the short run in determining which stocks get into the glamour category and have their price-earnings ratios run up into the stratosphere.

It may be true that the glamour stocks of 1960 have become a bit tarnished, but not all of them. Investors are still willing to pay top prices for the most glamorous of the glamour stocks, IBM. And one need but check the steady rise in earnings to see the reason for this confidence.

In the past few months a number of new glamour stocks have come to the fore. Among them are companies in such unglamorous fields as discount department stores (Korvette and Interstate) and clothing (Bobbie Brooks and Jonathan Logan).

Here is one of the most impressive rewards offered by capitalism. The risk taker who succeeds in a new venture attracts a following and can capitalize his success impressively. Nothing succeeds like success, and the people with new money to put into stocks are willing to shoulder the risks in order to share these rewards.

JACK LINSK

Highland, Ind.

THE PUBLIC AND THE ARTS

• Your February issue carried the article "The Arts in American Life" by August Heckscher. I was so impressed with the fact that CHALLENGE would feature this kind of food for thought, that I decided to subscribe to your magazine. I am also telling my friends about it.

STANISLAV REMBSKI

Baltimore, Md.

• I fail to see what purpose is to be served by articles like "The Arts in American Life" in a magazine such as CHALLENGE.

What does all this have to do with economics? Why not leave such "arty" talk to publications specializing in this sort of thing? It has no place in your very good "magazine of economic affairs."

EDWARD MACNEIL

New York, N.Y.

• I was very much interested in August Heckscher's report on "The Arts in American Life." Mr. Heckscher points out that the Congressional action which provided for a National Cultural Center in Washington did not allocate funds for the building of the Center. But, he says, the government did not hesitate to provide funds for an extremely handsome cultural center for the people of West Berlin.

I wonder if the real issue here is not the will of the government, but the will of the people. Perhaps the building of a cultural center in West Berlin came about because of a clearly expressed desire on the part of the people to have one. In America probably only a small minority of the people would agree with Mr. Heckscher that the promotion of art and culture should be a goal of our national life and a responsibility of government.

MARGARET LEWIS

Washington, D.C.

DISTRIBUTING PLENTY

• Automation produces more goods with less work. Mr. Townsend's article on its results ["The Human Equation," February, 1961] points out that this can and does result in unemployment and distress. It is profoundly depressing that we seem to have no real policy for reaping the benefits of automation. Our thinking is largely geared to providing work for people, while, in this era of abundance, we should rather concentrate on providing them with incomes.

Public discussion on economics should be more concerned with the problem of distributing what we can produce. We should examine our economic institutions to see how they could be improved so that the richest country in the world does not present the paradox of poverty in the midst of plenty.

R. P. MARSHALL

Buffalo, N.Y.

ON SALESMANSHIP

• Richard Waddell in "Spotlight on the Salesman" [February, 1961] says that in the new competitive economy, companies need to rediscover the age-old secret of a good peddler: "to know what the customer wants better than he knows it himself."

Last year I bought a radiator brush from a salesman who "knew better than I did" how much I needed it. But I still use a dust cloth and a few hearty gusts of breath to clean my radiators. I also have a set of a junior encyclopedia bought from an earnest young man who "knew better than I did" how my children would enjoy them. So far my two youngsters have ignored the books in favor of fairy stories and science fiction. And there was the slick young salesman who "knew better than my husband" how handy a checkwriting machine would be. But my husband still carries his checkbook in his pocket and fills in the checks by hand. The list of such useless items in our house is an astonishingly long one.

From now on, *no* salesman is going to swell his sales record by convincing me that he knows what I want better than I know it myself.

MRS. E. F. KNIGHT

Seattle, Wash.

PLAUDITS

• I find the "new" *Challenge Notes* a refreshing change of pace from your almost universally "meaty" selection of economics articles.

Bravo!

H. J. EVANS

Cairo, Ill.

• A bouquet for your February editorial! I was especially impressed by the statement:

"It now falls to the U.S. to recognize that the difference between materialistic nihilism and a stable world where established men of good will can help their neighbors is the difference between nostalgia and the fearless facing up to new world forces."

In this connection I'm sure you feel, as I do, that President Kennedy's Executive Order creating the Peace Corps is a big step in the right direction.

PATRICIA FAWKES

San Francisco, Calif.

• Recently, while engaged in a graduate school research project, I had the good fortune to come into contact with your magazine. Upon perusal I found the articles to be both interesting and informative. In short, the magazine should be considered a necessary and vital supplement to one's current reading.

EDWARD J. EDER

Milwaukee, Wisc.

Challenge
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BUSINESS ON THE COUCH

by L. H. NAUM

■ ACCORDING TO that reliable and unprejudiced chronicle of changing social customs, the *Yellow Pages* of the Manhattan telephone directory, there are over 2,000 bold and enterprising organizations ready to counsel and advise the troubled businessman. Perturbed by a tottering corporate image? Seven hundred and eighty public relations experts will make you shine with a virtue resplendent. Have a product in search of a market? You can turn to any one of nearly 300 sages who are expert at both understanding motivations and, if you are desperate enough to believe anything, creating them to a predetermined pattern. Finances troubling you? Hop on any of the 40 couches especially designed for the weakened corporate backbone. Indeed, if as a modern manager "the whole darn thing" has you down, you need only to turn to any of some 300 management consultants or business counselors willing and eager to open their doors to confusion, frustration and defeat.

This variety of consultants is a relatively new element in modern business life. Their market is boiled up out of the complexities of decision making in a rapidly changing economy, and their product, sometimes sold at astonishing prices, is simply *advice*. The stable growth of the old line consulting firms and the constant addition of new and apparently successful associations is at least superficial proof that their services are held in high esteem by the people who pay the bills.

Perhaps, at this point, it would be valuable to put the industry in its historical perspective. I took a look, *Yellow Pages* in hand, at the 10-year growth of consulting work on the island of Manhattan (not because it was "typical," but because it was indicative). In the 1950 edition, "Management Consultants" as such had not established themselves. This heading directed the troubled executive to look around for Business Counselors, Engineering Consultants, Financial Consultants, etc. Perhaps in 1950 business was still uncomplicated enough for the manager to at least classify his troubles. In all, there were about 1,000 consultants.

By 1960 this number had doubled; moreover, 58 firms were listed under "Management Consultants." Certainly, a growth of approximately 100 per cent in a service business is significant. The independent professional business consultant has, in fact, become an intimate and necessary part of the successful conduct of modern business.

Early consultants

Industrial consulting is generally first credited to Frederick Taylor, and to Frank and Lillian Gilbreth, who began to deal with industries on an individual basis around 1910. These early consultants dealt primarily with the problems of factory management, and they dealt with them at first in terms of machines and productivity. Gradually, the search for greater efficiency turned into the fields of the sociological and psychological sciences. The modern business consultant considers himself to be a social philosopher first, and he becomes a functional specialist only if and when he is satisfied that the corporate *id* has been properly assessed and bolstered.

Almost as varied as the fields of consulting is the way in which the consultants do their work. Marcus Nadler, one of the top consultants in the business of banking, says with finality that the consultant has a responsibility to make specific recommendations to his clients [CHALLENGE, *January, 1961*]. According to Dr. Nadler, "when businessmen come to a consulting economist with a problem, they don't want an 'on-the-one-hand, on-the-other-hand' answer which will leave them more confused than they were to begin with. That is why," he continues, "I have developed the practice of considering the alternatives myself and then telling my client that this is my opinion for these specific reasons. In other words, I don't leave the burden of decision to him."

I discussed this approach with the manager of a multimillion-dollar electronic business, who uses consultants regularly, and got an equally positive answer from him that decisions were exactly what he *did not* want. In his book, a consultant is an adviser who earns his fee by bringing before his client the undigested total of all possible courses of action. The consultant is expected to know everything that has been done with respect to the matter at hand, and the extent of success or failure of these measures. Even more important, perhaps, his job is to evolve new approaches and to evaluate accurately the opportunities they create and the limitations they impose. But, participate in the decision itself? "Never." This energetic and inner-directed young man says, "After all, I am measured by and paid for my ability to make decisions."

The consultant walks a difficult line, and few of them care to step into the actual processes of decision making. With the exception of the rare positivist like Prof. Nadler, they avoid all sentences beginning with, "If I were in your place, I'd . . ."

Some of them, in fact, are so sedulous in this respect that they avoid giving any advice at all, seeing themselves as corporate psychoanalysts whose role is cathartic and catalytic and whose mission is one of helping the client understand himself. These corporate psychoanalysts command substantial fees, but they are, providing they are competent, worth what they charge. Ideally, the institution, like the individual, must somehow be driven into a conscious acceptance of reality in a way which provides a viable and lasting pattern of response to problems rather than a quick way out of each problem as it occurs.

Integration and action

One tends to wonder how the modern corporation executive got where he is if he needs so much help to stay there. The fact is that he has used consultation in one form or another all along the route; but because his responsibilities increase geometrically as he moves up the management ladder, he passes, in rather abrupt fashion, from the indefinite state of one who *seeks advice* to the committed condition of one who *has advisers*. At the level of management where the prime function becomes decision making, the executive spends little time gathering facts and ideas. His role is the integration of these facts and ideas into courses of action.

In *The Practice of Management*, Dr. Peter Drucker points out that "the demands on the skill, knowledge, performance, responsibility and integrity of the manager have doubled in every generation during the past half-century." He outlines several difficult and demanding new tasks of managerial responsibility. There would be no shame attached to calling for help on any one of them, but two clearly override the others in intensity and help explain the increasing popularity of the consultant.

One of these challenging tasks, Dr. Drucker explains, is that: "Traditionally a manager has been expected to know one or more functions. This will no longer be enough. The manager of tomorrow must be able to see the business as a whole and to integrate his function with it." What complicates the process is that this requirement is coupled with the march of each function into *its* own growing complexity. Forty years ago the manager who could read a budget and understand a balance sheet could keep abreast of his business accounting. Today accountants have become systems experts and computer users, and the manager must think, talk and make decisions about such matters as programing, game theory and business models.

Each of the functions the manager ultimately controls—marketing, finance, manufacturing, public and employee relations, and the like—has a developing "inside" language of its own which must be translated, and each function must be dovetailed with all of the others. Is it any wonder that the manager cries for help?

The second task which places the manager beyond any hope of going-it-alone comes about in the following way, according to Dr. Drucker: "Traditionally a manager has been expected to know a few products or one industry. This, too, will no longer be enough. The manager of tomorrow will have to be able to relate his product and industry to the total environment, to find what

is significant in it, and to take it into account in his decisions and actions. And increasingly the field of vision of tomorrow's manager will have to take in developments outside his own market and his own country. Increasingly he will have to learn to see economic, political and social developments on a world-wide scale and to integrate world-wide trends into his own decisions."

Running to keep in place has become the order of the day, and if there is a legitimate criticism of the role of the average consultant, it comes out of the troubled recognition that two do not necessarily run faster than one, and that, inevitably, accelerating environmental change will outrun executive, consultant and consultant's consultant (a probably unavoidable development) alike.

The growth of the consultation business in nearly every field of endeavor, and in every functional aspect of those fields, has been as proliferate as that found in management counseling. The eventual chaos of so complete and final a demonstration of Parkinson's Law is not difficult to imagine. Top-level consultants are aware of this, and within the past 10 years or so there has been a shift in emphasis as definite and dramatic as that undertaken by the Gilbreths and their contemporaries. Consultation has become the "practice of simplification," the conversion of assumptive and intuitive reasoning into systematized steps of investigation, planning and execution.

Rational translation

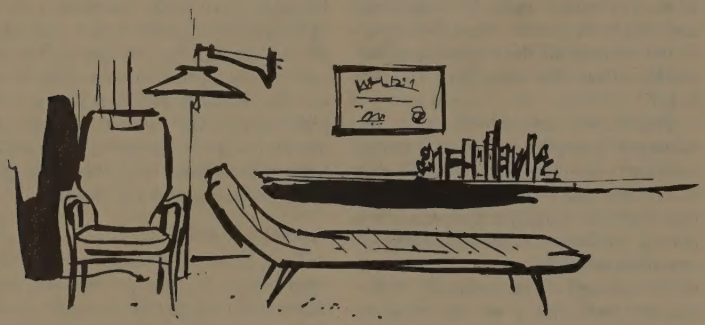
To a certain extent, of course, developments in computer and machine technologies have made these changes practical. But it is the related and more difficult development of a rational translation of sociological and psychological principles into the business field which has made this "practicality" possible. Thus, the consultant is a simplifier, systematizer and translator.

Now, it is not hard to imagine that a profession so esoteric as consulting would be a pretty attractive plum for men with a sense of adventure and very little taste for hard work. Unfortunately, this seems to be true, and no endeavor within memory has gained so firm an image of charlatanism in the public mind in so short a time as has the general notion of the "consultant." The bad apples in the barrel, however few, lend an unmistakable flavor to the barrel as a whole.

As far as I have been able to find out, few of the various branches of professional consulting have established any sort of code of behavior and standard of practice such as one might find among lawyers, doctors or television repairmen. Exceptions that come immediately to mind are the codes of the American Society of Mechanical Engineers with respect

to management practices, and engineering consultants who, in general, adhere rigidly to the ethical standards of their profession, and who must qualify for practice in most states through a difficult route of preparation and extensive examinations.

There is another exception—but it is only apparent. Those who fly the banner of Public Relations Counselor are *compulsive* code-of-ethics writers. However, though many such codes are produced, the "profession" as a whole shows few signs of following them. There are,



of course, a handful of firms who have built an enviable place in the business community by working purposefully and decently in behalf of their clients. But it is difficult to take the bulk of the "profession" seriously, either in their protestations of benign intent or in their ability to deliver the package they say they sell.

Ineptitude and dissemblance

The whole field of counseling in advertising, promotion and public relations is washed in the mud of ineptitude, of sham and of dissemblance. Many firms who, in prewar years, concentrated their creative talents on the doing and measuring aspects of their work, and did a fine job, have succumbed to the temptation to "counsel the client." It is difficult these days to hire an advertising agency to write an ad without having them swarm all over you with services. It is impossible to find a public relations firm which accepts your concept of yourself and gets the message out. Or a market research firm which tells you whether a product will go or not go. One just doesn't buy work any more; one buys a package consisting of a little work and a large injection of corporate-image, id-ego mumbo-jumbo. The days when one advertised his product on its merits or promoted his company on its accomplishments seem to be over. We are told life is too complicated now.

Here again it is very important to keep in mind that a sufficient supply of highly competent consultants is available in the field; the only problem is to find them. Their successes are necessarily unpublicized, and identifying them is largely a matter of personal recommendation. If ever a rule had meaning for a business in need of help, it is here; *caveat emptor*, in spades!

There is a certain unavoidable effrontery connected with hanging out a shingle in the consulting business. In effect, the consultant is telling his customers-to-be that he knows more about their businesses than they do, that he can think more clearly and more creatively in the broad ranges of expertise involved in business functions, and that he can help his clients uncover and see the key issues obscured to their view by involvement and intimacy.

The amazing thing is that this is, indeed, about right. From management consultation, with its preponderance of good apples, on down the line to those fields where each apple requires individual inspection, there is strong evidence that skilled consultants have exploited an opportunity for service in a socially beneficial way. Business, industry and, as a matter of fact, the lively arts pay highly for consultation services, and the consultant in his turn seems to deliver the communicative understanding which spells the difference between just hanging on and growth toward clearly defined objectives.

If one accepts by this time the thesis that the consultant performs, on the whole, a reasonable function, there still remains a question as to why these skills cannot be had on the premises. In other words, what is to be gained by going outside a business for help?

First, economic necessity more frequently than not precludes expert consultation on a full-time basis. The limited resources of most businesses just do not warrant the top-level salary payments that are needed, and most problems do not require an indefinite commitment of income to the consultant. The average business calls in the expert, gets his advice and, in effect, fires him "without prejudice." He may be needed again next week, but he is never a business cost except when he is making some sort of contribution.

The other side of the coin is that the able consultant is rarely willing to restrict himself to the narrow horizons of a single business. By adopting a pattern of life reminiscent of the one-armed paper hanger with the hives, he manages to work for many clients at the same time, to teach a bit, to attend endless meetings and conventions, and to pour forth an endless stream of books. The opportunity to select his client and his problem area, to set his own pace, to enjoy the social status that seems peculiar to the consultant with a university association, and to enjoy the simple pleasures of individuality in an increasingly regimented world—all of these factors make the consultant reluctant to enter the corporate family.

Broader experiences

A second reason for seeking outside help is that the independent consultant brings into the problem a knowledge of industry practices and is able to apply the best of these without violating any confidences. Gimbels may not tell Macy's, but if they've used the same consultant it doesn't make any difference. The consultant is able to view the recommendations of insiders in a business in the light of his very much broader experience. He acts as a kind of litmus in establishing the chemistry

of a course of action in terms of experience and standards beyond the narrow range available within the business.

The main problem involved in depending wholly upon staff help is the universal danger of inbreeding. Limited viewpoints and distorted perspectives are developed quickly at the policy-generating level of a business because of the limitations imposed by the laws of competition and because of the myopia created by day-to-day responsibilities. Very large businesses have managed, on a few occasions, to give freedom and substantial autonomy to selected people in the organization in order to permit them to think beyond the day's activities. But such consultants are frequently without honor in their own companies, especially if they prescribe courses of action which seem radical or which call for fundamental changes in the behavior of operating employees.

The same advice, coming from a qualified "outsider," is frequently acted on with willing dispatch. In fact, consultants are frequently hired to support a difficult or unpopular management decision.

The endless pressures upon a modern business to think in terms of global economics, national goals and social values generate a very real sense of inadequacy within the corporation. Yet these forces do bear down upon an increasing number of businesses emerging from insularity, and the simplest and most economic way of "keeping up with the times" is the use of consultants to develop those concepts which are peripheral to the business.

There is a powerful need, also, at the opposite end of the scale from the global thinker, for the "one big idea" man—the consultant who knows everything about one thing and practically nothing about anything else. He serves the business in the unvarying pursuit of his single cause, but since his usefulness does not go beyond that, he is not a candidate for permanent employment. Thus, there is a need for consultation at the level of the most general and at that of the most specific. And, there is good reason to suppose that there is a need at every level within this range.

The manager is frequently beset by the need to talk his problems out —to affirm his beliefs through the test of unguarded debate. It is difficult in the practical arrangements of the business world to seek such help from within the organization, for the employee who wants to remain an employee will rarely risk the dangers of a frank criticism of management. From the manager's point of view, there is less threat of compromising himself personally when he explores his ideas freely with an outsider. Consequently, the conclusions reached are, if no more sound, at least more satisfying.

Finally, the outside consultant performs as a catalyst to creativity. His presence in the organization is not a threat but a challenge. His freedom to range beyond conventional and traditional concepts makes no contribution of substance, but serves to stimulate those within the organization to think beyond themselves.

Though lacking either a formal discipline or a discernible ethos, consultants have managed to steady the uncertain hands that guide the business economy. They will be around as long as business is a matter of uncertainty and risk, and as long as personal and corporate rewards continue to be measured against broadening social, economic and political criteria. ■

The changing American market

Profile of the New Consumer

by A.W. ZELOMEK

■ A DELUGE of optimistic descriptions greeted the beginning of the Sixties; the decade was going to be "golden," "glittering," "soaring." When, in the second half of 1960, some of the economic indicators stopped pointing upward, the business community was faced with predictions of "prolonged recession," "depression," "big drop in sales"—in short, a complete reversal of attitude. A business executive who must make long-term plans, who must decide whether to add to capacity or invest in a new product, cannot stand safely in the path of such a pendulum.

Many of these predictions, even if carefully considered, are based on methods and indicators which were, perhaps, effective in the prewar era, but which do not give due weight to important new factors in our economy. Economists and analysts are too accustomed to forecasting in terms of steel, automobiles, carloading and machine tools. We would do better to study the American consumer—his age, the size of his family, his resources in time and money, the expenditures he must make (like taxes) and the products he wants to buy (like boats).

An important change is that people no longer derive their income from the production of goods to the same extent as they did 20 or 30 years ago. Today large shares of the national income are generated by the service industries, by tremendously expanded government payrolls (federal, state and local) and by transfer payments (social security and unemployment insurance).

Direct consumer demands, therefore, represent a more important economic determinant today than they did in prewar years; consumer spending and industrial production can move in opposite directions, and have done just that in recent recessions. Important also is the fact that the consumer buys different products and services. Despite the available data on the new consumer and his requirements, the businessman fre-

quently appears to be catching up rather than leading the way. To give a recent example: the consumer knew he wanted compact cars while Detroit was still making long, shiny status symbols.

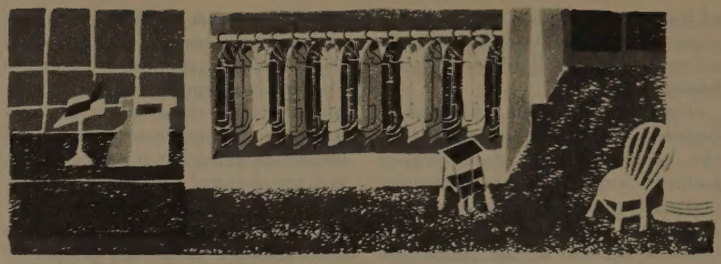
In contrast, the phenomenal success of the frozen foods industry was due to the fact that it fulfilled a need of the new consumer. This success could have been foreseen, but only after a thorough analysis of the consumer's position, taking into account the number of married women working, the distance of suburban homes from the central shopping areas, the ownership of home freezers, the busy life of the suburban housewife and the rise in real, disposable income which makes it possible for a woman to pay for frozen foods without too much regard to cost.

Habits and needs

Today's consumers are much more sophisticated than is commonly assumed. If their buying habits have changed, it is because needs have changed. Spokesmen for industries which have lost ground (when measured as a percentage of total consumer expenditures)—for example, the clothing industry—have tended to regard this situation as "abnormal." They point out that before the war percentage changes in sales for these industries were greater than the increases for disposable income. But earlier spending patterns cannot be taken as a norm to which we can or should return. On the contrary, we must assume that consumers have made a reasonable evaluation of their new needs and goals.

Today's consumers are willing to pay for what they want; while they may still enjoy a bargain, they will look beyond the price of a product before buying. For one thing, a low price will not compensate for poor quality or poor performance. For another, the consumer will not pay more for a product unless there is some perceptible superiority which warrants the difference in price.

Both these points can be illustrated by women's wear items. When nylon slips were first introduced at a relatively high price, there were many predictions that they would not sell in volume because they were too far above traditional popular price lines. But of course they did



sell. They eliminated work and saved time, and both these qualities are worth money to the new consumer.

To illustrate the second point let us look at the market for women's blouses. Despite the rise in income the average price for this item has declined, largely because sanforized, resin-treated cottons, which are comparatively inexpensive, also perform very satisfactorily.

It was indicated above that industrial production, long regarded as the most important economic determinant, could no longer be used in the same way, because services, governmental payrolls and transfer payments now account for a larger share of the national income.

The growth of the service industries is the phase of economic development which comes after industrialization. When machine production is first introduced, employment rises in those industries which produce goods. When this rise begins to level off, employment in the service industries increases. The major services include personal services, repairs and maintenance, medical care, recreation, education, personal business, travel, trade, religious and welfare activities, transportation, utilities and housing.

Listing the service industries gives the clue to why their strength is a stabilizing influence in the economy. A car or refrigerator can last another year, if necessary, but the purchase of many services is not so easily deferred. Housing is contracted for in advance; utilities are essential to run the house; transportation is necessary to get to work; education is not likely to be interrupted except in extreme circumstances. Therefore, while the manufacturing segment of the economy responds rather quickly to changes in demand, and a decline sets off unemployment, the large segment of the population which depends for its income on the service industries is in a more favorable position.

By 1950 employment in the service industries exceeded that in the production industries. By 1960 the ratio of employment in the service industries to employment in production industries was 55 to 45. By 1970, according to the Bureau of Labor Statistics, workers in service industries will account for 57 per cent of all workers.

These data include government employees in the service sector, but because of its size and growth, government employment deserves separate comment. If we include the armed forces, approximately 95 per cent of federal, state and local government employees are working in a massive service industry. In total, more than 15 per cent of our nonagricultural labor force is employed by government; these employees have particularly stable jobs which are not affected by declines in the production of goods. Furthermore, it is estimated that government services will grow by more than 25 per cent between 1960 and 1970.

Stabilizing factor

Transfer payments are another stable, and increasing, source of income. In 1945 these payments accounted for only three per cent of total personal income; in 1955 the proportion had risen to five per cent; and in 1960 to seven per cent. With current plans to lower the retirement age and increase social security benefits, and with an increasing proportion of older people benefiting from social security, it is certain that this stabilizing factor in the national income will become even more important.

The shift in sources of income among industries has been paralleled by changes in participation in the

labor force by different parts of the population.

The most important shift, both numerically and in its social implications, is the increasing number of women in the labor force. This trend will continue unless there is a lack of job opportunities. There are many socioeconomic forces at work which push or attract women back to work. They range from a desire to use skills, to a financial need, to a desire for additional goods and services.

Most of the increase in the number of adult women in the labor force has been among married women who have no pre-school-age children at home. Today about one-third of all wives (with husband present) are in the labor force compared with one-fourth 10 years ago. More than half the entire female labor force is made up of married women. Working wives were responsible for more than half the increase in the total labor force between 1949 and 1959.

Meaning of statistics

These are the statistics. What do they mean in terms of family income? The median income of husband-wife families in which the wife is in the paid labor force is approximately $1,250 above that for families in which the wife is not in the paid labor force. This figure is low, because many women work only part time or part of the year; because about 75 per cent are in low-paying occupations; and because in many jobs held by men and women, women are paid less.

The second change in the composition of the labor force is the declining participation of young people. This change has occurred slowly over a long period of years and has been due mainly to two factors: the decline in farm employment and the steady lengthening of the period of school attendance. In 1960, 26 per cent of new young workers offered some college training compared with 22 per cent 10 years earlier. Forty-five per cent had completed high school compared with 40 per cent in 1950.

The tidal wave of college applicants has been too well publicized to need documentation here. Industry's needs for more trained personnel during the progress of automation will reinforce the desire for higher education.

The third change in the composition of the labor force is the declining participation of older men. The most important factor here is the social security system; current pressures are to revise the retirement age downward. In addition, more women will be eligible to collect benefits, making it possible for both husband and wife to retire earlier.

Let us now examine the oft-repeated statements that the consumer is no better off today than he was before the war when he earned less, that taxes and the high cost of living have taken more than the rise in income has given. This is not true, and the increase in the real purchasing power of the new consumer is an important factor on which business must base its judgments. After-tax average family income in 1959 (expressed in constant dollars to eliminate the effect of price increases) was almost 25 per cent higher than in 1947 and almost 50 per cent higher than in 1929.

In addition, this larger purchasing power is more equitably distributed; the average covers fewer extremes of high and low. Between 1947 and 1959 the proportion of families with incomes under $3,000 declined 28 per cent; the proportion of families with incomes of $10,000 and over increased only nine per cent. As a result of this redistribution, 41 per

cent of American families and unattached individuals had incomes between $4,000 and $8,000 in 1959.

The reason for the frequent statement that "we don't have any more now than when we earned less" is that our needs have expanded so rapidly. A list of new consumer needs which are becoming standard even for middle-income families could run on and on—extensive household appliances (and repairs), television sets (and repairs), cars (and repairs), bigger and better housing (and repairs), nursery school, camp, home swimming pools, specialists instead of general practitioners, college as well as high school, vacation travel. Yet, with all these new requirements, we have still managed to save from six to eight per cent of our disposable income each year since 1950.

Technological advances have increased productivity in agriculture and industry throughout our history, giving the working population more time off, more consumer goods and more money with which to buy them. The socioeconomic effects of this change are widespread. The suburbs would not be possible if there were no time for traveling. The lengthening span of education would not be possible if long hours of labor were still needed to produce our material wealth. The leisure industries which have flourished in the postwar era would have had no stimulus without this change.

Declining workweek

The workweek will continue to decline from its current 40 hours as automation advances. Even with the goal of increasing our economic growth rate, a moderate decline in the number of hours of work will still be possible.

Another change has come with advancing technology; the position of labor has been upgraded. There has been a long-term decline in the proportion of unskilled labor in our work force, and increases in the more skilled and white-collar jobs. In 1910, 31 per cent of the labor force were farmers, 37 per cent blue-collar workers and 22 per cent white-collar workers. Today the proportion of agricultural workers is less than 10 per cent and the number of white-collar workers exceeds the number of blue-collar workers.

Such a change has far-reaching implications. The terms "blue collar" and "white collar" not only describe the type of work done, but have social connotations. When a man "graduates" into the white-collar group, he wants to assume the buying patterns and leisure activities of his new status. The popularity of such pursuits as golf and boating can

be partially ascribed to their traditional association with the "upper classes."

Our concept of the new consumers would be incomplete without an understanding of the age distribution. Different age groups have different income resources and different demands. Much attention has been given to the increase in the older part of our population, but during the next five or 10 years the consumer market will become significantly younger. While the nation's total population is expected to increase by about 20 per cent in this decade, the number of people under 30 will increase by about 30 per cent.

The most spectacular growth will be in the number of teen-agers; the postwar baby boom is coming of age. The teen-age market should flourish in coming years. Products affected include soft drinks; phonographs and phonograph records; textbooks, school supplies and school buildings; sporting goods; and special lines of clothing.

Cautious predictions

The age group in which most marriages occur, 20 to 24 years, will also increase sharply. Over 80 per cent of women marry before they reach their 25th birthday, and this indicates a rising rate of family formation. The expected increase in the number of new families has already caused predictions of an upsurge in the buying of appliances and home furnishings, which in turn should support a spurt in the economy. Although an increase in this type of buying can certainly be expected, some cautions should be included in the predictions.

First, young workers will not find it as easy to secure good jobs as they have in the past. During the 1950s about 2.2 million people reached their 18th birthday each year. In the early 1960s the figure will be about 2.8 million, and it will jump sharply to 3.8 million in 1965. Less favorable employment conditions could limit individual purchasing and increase the proportion of products bought on installment credit.

Second, while approximately four out of five of these new families will set up their own households within a year of marriage, most of them will delay the purchase of a home. Less than 20 per cent of nonfarm family heads under the age of 25 own their own homes. In the next age group, 25 to 34 years, the proportion rises to more than 40 per cent, and after that to nearly 70 per cent. Therefore, the sharp rise in family formations should have only a limited effect on the demand for houses.

Third, although the number of young households (households with heads under 30 years of age) will increase rapidly during the next decade, the remaining 85 per cent of all households will increase at a much more moderate rate. The number of people in the country between 30 and 39 years of age, for example, will actually decline. This is the generation born during the depression years.

On the other end of the age scale the increase in the proportion of the population over 50 will parallel the increase in the population as a whole. Incomes for this age group begin to decline and are generally inadequate. An increasing proportion of income is spent for necessities—for food, housing, household operations and medical care. A declining proportion is spent for clothing, furnishings, transportation, personal care and recreation. Although the financial position of this older segment of the population should improve during the coming decade, it is doubtful that this pattern will change.

No doubt the new consumer wants to use his increase in leisure and money to "live better." Does this mean more mechanical servants? more education? more time just to relax at home? more trips away from home? economic security? no debts and money in the bank? Many of these questions have been answered by the statistics on expenditures, by the changes in family structure, by the uses made of leisure time, by the trend of installment sales.

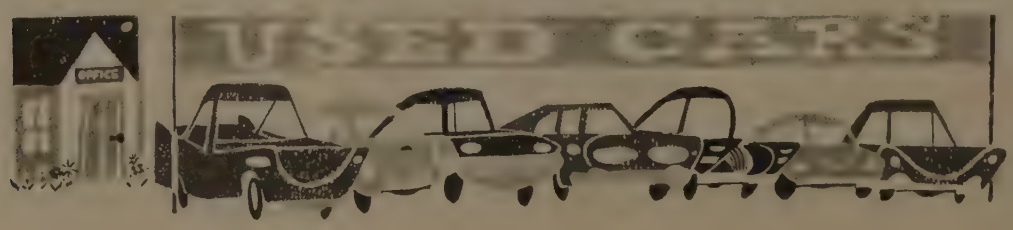
Changes in family life

Some changes in family life may be measured statistically. We marry earlier than we did; in 1940 slightly more than half of all 20- to 24-year-old women were married; by 1957 the proportion had increased to more than 70 per cent. First children are born earlier, and second, third, fourth and even fifth babies are being born earlier, and at a higher rate.

Not measurable statistically, but very apparent, is the importance of the family as the center of activity, as well as the pressure to provide goods and services for the family far beyond the level which was expected a generation or two ago. The roles within the family have changed, too. The wife who is active in the community or is in the paid labor force expects, and gets, help from her husband in running the house.

"Free time," then, is not so free after all. Many activities undertaken during leisure hours are required, although not for earning a living. Home maintenance, for example, occupies much of the suburban homeowner's "leisure." But there is still plenty of time left for travel, for active sports, for reading, for museums and concerts, for television viewing, for boating and for the many other activities which together comprise the $40-billion leisure market.

The pattern of consumer expenditures indicates what today's consumers consider "better living." In 1960 consumer expenditures reached a record high level, even allowing for the rise in the cost of living. Ap-



proximately 47 per cent was spent for nondurable goods like food and clothing, about 40 per cent for services and the remaining 13 per cent for durable goods. In 1948, when the economy had returned to a civilian basis, only 32 per cent of expenditures were for services. The largest increases in proportion of expenditures have been for medical care, housing, personal business and miscellaneous services.

Total consumption expenditures have increased each year since the end of the war, despite recessions. This reflects the confidence among consumers that "next year will be better" and that if things get bad "someone will do something about it." The public has been quite willing to assume personal debts and to buy wanted goods on installment. Expenditures for personal business, which accounted for 3.4 per cent of total expenditures in 1946, had increased to 5.9 per cent by 1959; the largest component in this total is interest on personal debt. In this same period the debt itself rose from $8 billion to $52 billion. (This excludes mortgage debt.)

Who are the installment debtors? Young married couples with small children, who need much and can afford little, are the most frequent buyers on credit. The families in the middle-income bracket (between $4,000 and $8,000) account for about half the total, but in all income groups the proportion of families with some personal debt has increased. Consumer credit is now widely accepted as a legitimate buying method.

The steady increase in, and the size of, the consumer debt have caused considerable concern lest, with so much income tied up in future payments, there will have to be a halt in current cash expenditures. In making such judgments, consideration must be given not only to the extent to which merchandise is bought now and paid for later, but also to the extent to which services are paid for now and collected later. Consumers pay in advance (or have paid on their behalf) for pensions, unemployment insurance, guaranteed annual wages, medical and hospital care, even education for the children. Consequently, today there is not the same need to prepare for a rainy day as there used to be.

Expenditures for medical care illustrate this point. In 1959 the total cost of hospital services amounted to $5.5 billion. Of this total, $2.1 billion were direct or "out-of-pocket" expenditures; $2.9 billion were paid by insurance benefits. Of total physician's fees, 29 per cent was paid in the form of insurance benefits.

To sum up, the new consumer who emerges from this analysis is in a more prosperous and secure position than ever before. He is quite confident of the future and, while willing to spend his money, buys quality and utility—not just "status symbols." He is better educated, is supporting a cultural revival and will expect a higher standard in mass communications. He prefers active sports to spectator sports and trips in the car to staying at home. He spends an increasing proportion of his income on foreign travel, personal business, education, housing, car use, medical care, and religious and welfare activities.

Personal consumption expenditures constitute 68 per cent of our gross national product. The consumers are able and willing to buy. They are confident that the economic future is bright. These facts cannot fail to be major determinants of the trend of our economy. It remains for the businessman to read the signs correctly. ■

Soviet trade and aid

Moscow's Motives— PROFITS OR POLITICS?

by FRANKLYN D. HOLZMAN

■ ONE OF THE major facts of life under the cold war has been the recent expansion of Soviet economic relations with non-Communist nations. A scattered sample of *The New York Times*' headlines in 1960 suggests the variety and importance of these activities: "Soviet Gives Loans to U.A.R. for 100 Projects," "New Soviet Pact Signed by Cuba," "Russian Oil Casts Shadow in West," "Soviet Machinery to Be Cut in Price," "Brazilian Coffee Going to Russia," "Russians to Build India Atom Plant," "Indonesia Signs Soviet Aid Pact," "Soviet to Finance Aswan's 2nd Stage," and so on.

But headlines can often be misleading. They may arouse fear or other emotions. Let us, therefore, go behind them and ascertain the facts. Then we can attempt to answer the following questions: Are the Soviets really stepping up their foreign trade with non-Communist nations? Has this trend accelerated over the past few years? Is the Soviet performance economically or politically motivated? Do these activities in any way threaten Soviet internal political stability?

Before presenting data for recent years, it is worth sketching the history of Soviet foreign trade. Prior to the Bolshevik Revolution of November, 1917, the Russian economy participated very briskly in world markets. Roughly 10 per cent of the gross national product was exported and a similar amount imported. While this is not large in comparison with the percentages for Britain, France, Denmark and other smaller nations, all of whose exports exceed 25 per cent of GNP, it is considerable for a nation well endowed with natural resources and occupying a huge land mass.

United States exports, for example, have not averaged more than seven per cent of GNP in any decade since the Civil War. Immediately after the Revolution, the relatively high Russian ratio of 10 per cent

dropped sharply, and it remained low during the whole of the Lenin-Stalin eras. The peak was probably reached in 1931-32 when exports amounted to about three per cent of GNP; in 1937 the incredibly low figure of .5 per cent was recorded—virtually no trade at all.

Since international specialization and trade are profitable for a nation, whether the economy is guided by the invisible hand of the free market or by the more visible hand of a State Planning Commission, the obvious question is: Why did the Soviets cut their trade to the bone? Primarily, the answer is that they envisioned themselves as surrounded by hostile nations and were unwilling to depend upon these nations for any goods which they considered in the least essential. The Soviets wished to protect themselves by becoming self-sufficient, albeit at the price of losing some of the gains from trade.

Leaps and bounds

Soviet trade has increased by leaps and bounds since the end of World War II. The volume of exports, relative to 1938, had increased threefold by 1950, fivefold by 1955, sevenfold by 1958, and probably (data are not yet available) close to twelvefold by 1960. As these figures suggest, the rate of increase has accelerated over the past two years. Trade is still not a large percentage of GNP by Western standards, but it is close to the prewar peak of three per cent.

The major factor behind the increase over the decade ending in 1955 was not abandonment of the goal of self-sufficiency but rather its extension to include other members of the newly created Soviet bloc. Trade within the bloc expanded substantially between 1947 and 1955, but that outside the bloc remained as shriveled as before. Since 1955, however, trade with nonbloc nations as a whole has doubled, and trade with underdeveloped nations has more than doubled. Striking examples of increases in the Soviet Union's total trade—exports plus imports—with underdeveloped nations between 1955 and 1959 are: India, from $12 million to $129 million; Malaya, from $22 million to $128 million; Egypt, from $26 million to $181 million. And in 1960 Soviet-bloc trade with the rest of the world is reported to have increased in volume by 25 per cent.

Before analyzing Soviet motivations, let us take a brief look at Soviet foreign aid. Until after World War II the Soviets extended no loans to other nations. This was partly a result of hostile relationships, but even more because the requirements of their own big industrialization drive left them with no capital to export. In fact, they borrowed small amounts from England, Germany and Czechoslovakia, and probably would have borrowed more widely had this been politically feasible.

After World War II the Soviets did extend some loans to other countries within their bloc, and these loans have expanded substantially in recent years. Aid to underdeveloped nations by the Soviet Union and by other members of the bloc was first given in 1954 and has since expanded substantially. Bloc credits over the past five years have grown as follows: 1955, $340 million; 1956, $725 million; 1957, $290 million; 1958, $1,030 million; 1959 to March, 1960, $1,400 million. Since April, 1960, the largest individual loans extended have been $225 million more to Egypt and $125 million more to India. The total increase appears to have been at the same rate as in 1959. Thus, as in the case of trade, the pace of Soviet aid has been stepped up over the past few years.

Total bloc credits outstanding on April 1, 1960 amounted to roughly $3.8 billion, of which one-fourth has been military and three-fourths economic. About $3 billion out of the $3.8 billion was provided by the Soviet Union, the remainder by other bloc nations. Most of the credits have been medium or long term, running for five to 10 years. As a result, only about 40 per cent of the $3.8 billion credit total has so far been translated into deliveries of goods by bloc nations.

Interest-bearing loans

Unlike U.S. aid, a large percentage of which is in the form of outright grants (gifts), Soviet aid is composed primarily of interest-bearing loans. The interest charged is, however, usually very low—from two to two and one-half per cent. Nevertheless, the low rate of interest may be misleading. Most of the major Soviet credit agreements provide for future negotiations to determine the commodities in which repayment is to be made, and their prices. While it is too soon to judge, hard bargaining over the specifics of repayment obviously *could* enable the Soviets to recoup some of the losses involved in their low-interest terms.

Major recipients of economic (excluding military) aid as of mid-1960 were: India, $625 million; Egypt, $465 million; Indonesia, $350 million; Syria, $150 million; and $100 million each to Afghanistan, Argentina, Ethiopia and Cuba. Until two years ago almost all credits were to nations in the Middle East or Asia. Since then the Soviets have successfully approached a number of nations in Latin America and Africa.

Value and influence

Supplementing their trade and aid activities, the Soviets have sent some 7,000 technicians to underdeveloped nations to help implement development programs. While the importance of such technical aid cannot be measured in precise terms, its value to and influence on recipient nations should not be underestimated.

To sum up, Soviet aid to underdeveloped areas appears to have accelerated since 1958 to a rate of about $1 billion a year and is directed to many countries with which the Soviets previously had little contact. Soviet trade with these nations has also accelerated, increasing by some 20 to 25 per cent a year in 1959 and 1960.

It is useful, in discussing the factors which motivate Soviet foreign economic actvities with nonbloc nations, to consider separately trade with advanced nations, trade with underdeveloped nations and economic aid to underdeveloped nations.

A very strong case can be made that Soviet trade with the United States, Canada and Western Europe is economically motivated. Surely the Soviets trade with these areas because they are able to obtain for 100 rubles worth of exports a quantity of imports which would have cost them more than 100 rubles to produce domestically. This was ob-

vious in the 1930s when they imported commodities almost exclusively, such as tin, rubber and machine tools, which they were not able to produce at all or only in inadequate quantities at high cost. All the facts indicate that the same is true today. Perhaps the most convincing evidence is the changed price and commodity structure of Soviet exports and imports.

Examination of Soviet commodity prices since the Twenties reveals, as one would expect of a nation which is rapidly industrializing, that the costs of producing finished industrial products have risen much less than the costs of producing primary agriculture and mineral products. Soviet wholesale prices of the former have, on the average, no more than doubled or trebled; those of the latter are six to 10, or even 15 times higher. These price relationships suggest

that the Soviets, if motivated by a criterion of profitability, should have exported agricultural and mineral products, and imported finished industrial products in the Twenties and Thirties, and, as price relationships shifted, done just the reverse in the Fifties.

Hypothesis and facts

This hypothesis is supported by the facts. Agricultural exports were around 60 per cent and industrial exports 40 per cent of the total in the 1920s; since 1955 the ratios have averaged 22 per cent for agricultural and 78 per cent for industrial exports. In the early Thirties, machinery, equipment and metal products were about three-fourths of total imports; at present they are less than one-third. From these figures it seems quite obvious that, while there may be exceptions, an over-all profitability criterion has guided the Soviet planners in their choice of classes of goods to export and import. I submit that this is particularly true in Soviet trade with other bloc nations and with the industrial nations of the West.

There is also some direct information to support the argument that economic gain is the major motivation of Soviet trade. The Soviets publish a number of handbooks for technicians who work in their foreign trade organizations. Some of these handbooks have found their way to this country; they contain explicit instructions that imports are to be purchased in the cheapest market and exports are to be sold at as high a price as possible.

Trade with underdeveloped nations seems to be motivated by an amalgam of economic and political factors. Soviet bloc trade with these nations is along classical comparative advantage lines. The Soviets export rolled steel, manufactured goods, machinery and equipment, and so forth, and import wool, rubber, rice, sugar, jute and other raw materials and agricultural products. It is extremely significant that the so-called Soviet trade (and aid) offensive was launched in 1954, the very same year in which, according to our information, the bloc's raw material shortages were reaching a critical stage.

A high official in the East German Ministry of Foreign Trade who defected to the West stated that each member of the bloc concentrated its investment on building up productive capacity in industry and manufacturing as rapidly as possible. Each neglected to develop its raw material capacity adequately, expecting to make good the deficit by imports from other bloc nations. By 1954 the situation had become critical, undoubtedly creating a major impetus for bloc nations to look for supplies from the underdeveloped nations. Unquestionably, this situation provides, for the present, a strong economic basis for trade between the bloc and underdeveloped nations.

Political consequences

Whether or not the original motivation to expand trade with the underdeveloped nations was economic, very soon the political consequences were obvious. In this sense, the Soviets' trade relations with underdeveloped nations became quite different from those with Western industrial nations.

First, in a number of instances the Soviets came to the rescue of nations stuck with surpluses, unsaleable at world prices, of agricultural products, and purchased the full complement at world prices, or even higher. The classic examples of several years back were Burmese rice and Egyptian cotton. In these and similar instances, it should be noted, the Soviets have not infrequently re-exported the same goods at a loss. Since the resales reduced the export markets of the original sellers and incurred their displeasure, the Soviets have risked and perhaps reduced the political capital earned in their role of "buyer of last resort."

Second, the Soviet program of economic aid (as opposed to trade) to underdeveloped nations would also seem to be politically motivated; at least, the economic basis of such aid appears very tenuous. The argument runs as follows: the Soviets every year invest a larger percentage of their national income than do almost all Western nations, despite the fact that the Soviet standard of living is relatively low. Capital is extremely scarce relative to the demand for it. The price of capital in the Soviet Union—the rate of interest, if there were one (and there isn't for reasons related to Marxist ideology)—would be very high.

This very fact caused Premier Khrushchev a few years back to attack the State Planning Commission for building large dams, canals

and other projects which tie up huge amounts of capital for long periods. In effect, Soviet medium- and long-term loans to underdeveloped nations at *very low* interest rates are comparable to dams and canals—the payoff is small and far in the future. In fact, the loans may often appear worse in the eyes of the planners since water power and cheaper transport, the products of the dams and canals, are probably more highly valued than the rice, cotton and wool in which the loans will eventually be repaid. That is to say, a loan to India involves exporting the machinery for a steel plant today in exchange for jute, rice and tea to be delivered 10 years hence.

Wedges and pressures

What is the political payoff of trade with and aid to underdeveloped nations? First, if trade and aid relationships are amicable and satisfactory, genuine political rapport may develop between the nations. Economic agreements may serve as opening wedges for establishing trade missions, negotiating cultural and scientific cooperative agreements, exchanging delegations and training students. Second, and perhaps more important, the development of trade ties and the extension of aid carry with them the possibility of exerting economic pressures and, through these, political pressures.

These economic pressures can come from dependence on the U.S.S.R. for: (1) sales of exportable agricultural and raw material surpluses; (2) imports of spare parts and additions to plant, machinery and equipment; and (3) loans and technical aid to finance development programs. To illustrate this point with one hypothetical example, think what Cuba's plight might be, several years hence, if the United States has by that time found other sources of supply of sugar, and Cuba attempts to make a political break with the Soviet Union.

While such eventualities may not frequently occur, the Soviets would hardly be loathe, under such circumstances, to use a nation's economic dependency to attempt to keep it on their side of the political fence. Two actual cases of such pressures have so far been identified: the indefinite delay of deliveries on a loan to Yugoslavia as a result of a political rift; and the fall of a Finnish cabinet, a few years back, as a direct result of difficulties in trade negotiations with the Soviets.

To sum up, Soviet trade with underdeveloped nations is, with a few exceptions, profitable and would probably be conducted even in the absence of political gain. The trade does also serve political purposes, however, and might be conducted for these reasons, even if economically unprofitable. Soviet aid, on the other hand, is without doubt economically unprofitable and almost entirely politically motivated.

Some have argued that its aid to underdeveloped nations is a strain on the Soviet Union's internal political stability. The reasoning is that the Soviet consumer is unhappy with his low standard of living and aid to other nations employs resources which might otherwise be used to ameliorate his lot. This argument, while correct in principle, is

not very important in quantitative terms. Let us look at the facts. By April, 1960, the Soviets had extended $3 billion in credits to underdeveloped nations which had involved, so far, roughly $1.2 billion worth of unrequited deliveries of goods.

Assume that (at most) this amounts to $500 million in deliveries per year. How significant a drain on the Soviet economy is this sum? The Soviet GNP at present is close to, say, $250 billion. Unrequited exports amount, then, to only 1/500 of GNP. Since consumer goods are at least half of GNP, the exports amount, at most, to 1/250 of the output of Soviet consumer goods. Let us look at it in another way. The Soviet economy is growing at a rate of about seven per cent per annum—or by about $18 billion a year. The unrequited exports each year amount, then, to only about three per cent of the annual *increase* in GNP.

The above calculations show that Soviet aid is not a significant drain on the economy—that it is not difficult for the Soviets to support an aid program of its present size or even to expand it substantially. They also indicate why, in view of the low rate of return on loans to underdeveloped nations, the Soviets are willing to make as many as they do—the loss involved is just a drop in the bucket.

Press in error

A reading of the popular press suggests that the Soviet bloc has outstripped us by a large margin in its aid program. Actually, the reverse has been true. Before 1953 the United States made gifts or granted credits to the tune of some $11 billion. Since 1953 we have obligated over $20 billion, in comparison with the Soviet bloc's $3.8 billion. These differences in magnitude are really understated if one takes into consideration the fact that the bulk of our aid has been outright grants, whereas Soviet aid has largely taken the form of interest-bearing loans.

Why has the Soviet foreign economic program had such a remarkable political impact in comparison with our own much more substantial program? While no definitive explanation comes to mind, several contributory factors have been suggested by experienced Western observers.

- First, the Soviet aid program has the advantage of novelty, even as our own Marshall Plan aid had more than a decade ago.
- Second, Soviet credits usually have no strings attached. The Soviets generally go along quite readily with any development projects, good or bad, which the loan recipients are anxious to initiate. The United States, other Western nations and the international lending agencies, on the other hand, usually require that the economic soundness of a project be demonstrated, and are often unwilling to sponsor projects dear to the hearts of the borrowers. The Soviets have been able to depict the Western approach as "in-

terference" with local sovereignty.

• Third, many nations seem to prefer loans to gifts as a more self-respecting way to obtain foreign aid. Here, again, the Soviets have successfully cast aspersions on a relationship in which one nation accepts "charity" from another.

• Finally, we have been defeated by the Soviets when we competed with them for the opportunity to grant credits to some nations for major projects. The best-known example is Egypt's Aswan High Dam. The Soviet victory in this case is remembered much longer than financially larger, but less dramatic, American aid to many other nations.

The picture is not entirely black, however. While the image of Soviet aid looms larger than it deserves in the Western press, the relative impacts of Soviet and American aid on authorities in recipient nations is undoubtedly more in proportion to amounts and terms granted. Complaints by leaders of underdeveloped nations, and there have been many, against Soviet aid and trade policies (for instance, when the Soviets resold Burmese rice) rarely make headlines in the Western press.

Similarly, while we may have lost influence in Egypt by allowing the Russians to get in ahead of us on the financing of the Aswan High Dam, we almost certainly have gained the respect of many neutrals by not allowing ourselves to be blackmailed into supporting regimes basically antithetical to us. The pluses and minuses involved in such decisions (Cuba is a recent case in point) are very difficult to add up and may bear re-evaluation.

We might also re-evaluate our policy of favoring grants over loans. The best of both worlds might be attained, where this seems appropriate, by substituting loans for grants but allowing very low interest rates and very lenient repayment provisions with the possibility of indefinite deferment in the event of balance of payments difficulties. Repayment in kind *à la Russe* might also be considered as a means of easing future balance of payments problems.

Finally, we should expand our aid program to the limit to which aid can be absorbed by underdeveloped nations. If any country has a comparative advantage in ability to give aid, it is the U.S., the richest nation in the world. We should expand our aid not only on political grounds but on the ethical ground, which underlies our own domestic policies, that the richer should help the poorer. In the world economy the discrepancy between the rich and the poor is far greater than it is within our own economy; the moral imperative to give aid is, therefore, also greater. Perhaps this is what President Kennedy meant when, in his inaugural address, he pledged "our best efforts to those people of the globe struggling to break the bonds of mass misery." ■

A question of quotas

DOES THE U.S. NEED CUBAN SUGAR?

by FRANK A. TINKER

■ THE IMPORTATION of Cuban sugar into the United States was finally forbidden in the midsummer of 1960. This highlighted several facets of our sugar program which perhaps have needed a closer look. And, when alarmists' fears that they might have to swig unsweetened morning coffee were lulled, it even began to be quietly suspected that a formidable economic weapon had been handed to this country by a bungling revolutionary Cuban government.

It should be candidly recognized that sugar, belying its own sweet nature, has always been a bitter economic question. Today it is recognized as one of the 10 most important foods. Yet one of our first tariffs, in 1789, was levied against this "extravagance." Throughout the 19th century the price of the nation's "sweets" fluctuated widely through the effects of taxes, crops and canny marketers.

In 1913 the price of sugar averaged about six cents a pound in the U.S. During World War I the demand for sugar, a scarce commodity, rose until, in 1920, a pound cost the American housewife 25 cents. As could be expected, the supply followed upward. In the decade between the start of the war and 1924 Cuban sugar production doubled, to nearly six million short tons. When demand dropped at the start of the depression the market fell until the price of Cuban sugar reached a low of half a cent a pound—just one-fourth of the cost of transport to the U.S. plus import duty.

Congress, in 1934, passed the Jones-Costigan Act, which was the first outright attempt to control sugar production in the U.S. Three years later this was replaced by other legislation similar in content but broader in scope. From these beginnings have emerged the present U.S. Sugar Act, revised from time to time, but generally pointed to as being at least one successful experiment in American governmental control of agricultural production.

This frankly compulsory program divides the huge U.S. market, which consumes 20 per cent of the world's sugar, among various producing areas on the basis of each producer's

historic role. Each December, relying on the detailed reports of his advisers, the Secretary of Agriculture estimates how much sugar the nation will need during the coming year. He then splits the total among each foreign and domestic area which contributes sugar. To enforce the domestic allotment, the Secretary gives *each company* an individual marketing allotment. If that company sells more than its allotment it risks a fine of three times the market value of these nonauthorized sales.

The companies in turn allocate the production by signing contracts with growers in their areas. No sugar beets or cane are grown without such a contract. The Department of Agriculture allots domestic acreages and, again, enforces these with a heavy penalty. A tax is levied on the processors by the government. Such tax

payments have paid for the cost of the entire sugar program and have contributed a surplus of $350 million to the U.S. Treasury since the program went into effect.

As for the foreign suppliers, each acceptable nation is allowed to ship a certain tonnage of raw sugar to U.S. mills. No refined sugar is purchased unless raws are unavailable, a rare circumstance. The countries involved are not obliged to ship their total quota to our markets; however, the U.S. premium over the world market, generally about two cents per pound, is normally sufficient enticement.

If a country cannot meet its quota, the deficit is assigned elsewhere. In the past this meant Cuba, which was accused, with reason, of having a virtual monopoly on such additional sales. (In 1956 a revision of the Sugar Act awarded some of these deficits to mainland producers.)

According to allotments made for the 1960 crop, almost half of the 10 million tons of sugar required by the U.S. during that year came from foreign markets. If the Cuban quota had not been cut off at the midyear point it would have exceeded three million tons.

World consumption

The world consumption of sugar is now about 52 million tons a year, which represents an increase of more than a third in the last decade. About two-thirds of this is derived from cane, the rest from sugar beets. Of this total, however, 38 million tons are consumed in the countries where it is grown. In addition, eight million tons are traded under systems such as the U.S. Sugar Act, the British Commonwealth Sugar System and the French Sugar Program, which leaves only six million tons to be traded in the "free market." This surplus sugar is usually sold under pressure at highly competitive prices.

The world market, as a result, exerts some pressure on U. S. domestic prices. Since foreign suppliers are not obligated to sell in the U.S., they can take their time during the year to decide whether to offer their harvest here. When the market abroad can no longer take sugar, this surplus is sold for what it will fetch in the U.S.

During times of surplus, the U.S. undoubtedly could get raw sugar at prices well below those it is paying now, but the long-term effect, almost everyone in the business agrees, would be to create havoc among both producers and purchasing nations. Thus a truly *laissez-faire,* competitive world supply and demand sugar market does not exist. At times, in fact, the Secretary of Agriculture has stated that U.S. consumers should be paying more, not less, for their sugar. Whether or not the consumers agree with this, the record shows a remarkably stable price for the product in U.S. groceries during the operation of this system.

At the time the imports of sugar from Cuba were halted, there were only 700,000 tons remaining to be shipped into the U.S. under the 1960 quota. A spot survey of a dozen nations showed that among them they had on hand at least three times this amount, which insured a competitive bid for our purchase. Additional nonquota allotments were given to the Philippines, Peru, Mexico, even to nonproducer Canada and the politically controversial Dominican Republic.

But how is the loss of Cuban sugar —which previously amounted to about one-third of the U.S. supply —to be made up in 1961 and subsequent years? First to be considered, of course, is the possibility of increasing domestic mainland production. In the near future, at least, nothing really significant can be done here. Sugar is not a product which can be grown overnight. To drain and prepare land, seed, irrigate, harvest and refine a crop takes several years at least.

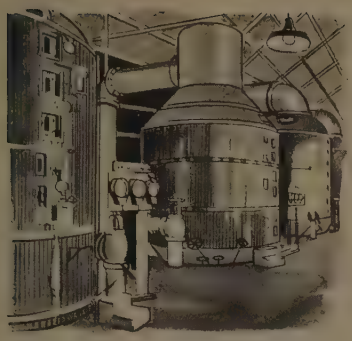
By removing all restrictions from the beet acreage planted (which has been done for this year) total production will be boosted a maximum of 10 per cent, or another 260,000 tons. Beyond this simple lifting of controls, other more persuasive means are required—namely, the guarantee of a long-term increase in the sugar quota for homeland producers.

The capacity of our 62 operating sugar beet factories is the factor that most severely limits any such expansion program and, unfortunately, small factories are neither economically nor mechanically feasible. The cost of a sugar beet factory capable of turning out 75,000 tons of refined product a year is about $15 million, an investment requiring a considerable time to recoup.

Peculiar irrigation conditions

If such a guarantee of purchase for the raw product were given, would there be land available? Beets require peculiar conditions of irrigation, but can be grown in a wide variety of soils. When sugar hearings were held last year to determine acreage allotments, the Department of Agriculture was flooded with requests from growers in 21 states for a total of 189,422 additional acres, about 19 per cent of the present one million planted acres. Though only 17,000 new acres were allotted, the volume of requests showed that in several areas the expansion of sugar beet acreage is possible.

Minnesota, for instance, requested 55,000 acres in 1960, as compared



with 6,000 in 1955. Much of the western plains area might become suitable—and be relieved of some of its embarrassing wheat—if the now rapidly developing program of the Interior Department for purifying brackish water is as successful as it promises to be. A tremendous pool of such water underlies this region.

Model of efficiency

Through development forced by the restrictions on acreage, the beet sugar industry has been made a model of agricultural efficiency. Because the beet seed normally sprouts several plants, subsequently requiring expensive thinning, a seed was developed which resulted in only one plant. Two-thirds of the seed planted in 1961 will be of this variety. Crossing with a wild beet may produce a plant immune to nematodes. In addition, the sugar factories have been redesigned to extract the last ounce of sugar from the beet in the cheapest possible way.

The possibility of developing new *cane* sugar fields also exists, and is causing a run on suitable swamp land in Florida and Louisiana, the only two states with a quota for cane. Texas could probably produce cane as well. Some $40 million has already been committed to expansion of sugar facilities in Florida, where it is claimed that 300,000 acres of the Everglades could be made suitable for cane. The cost of such land preparation, however, runs about $100 an acre, in addition to the purchase price of $500 an acre. In all, to raise the production of these two major states to a million tons (from their present 650,000 tons) would require an investment of about $300 million.

Congress has been asked to raise Florida's cane quota to 800,000 tons immediately. The curious fact is, however, that this region last year did not come within 140,000 tons of its present quota. Some of the current enthusiasm may be entirely promotional—such things are known to happen in Florida—or perhaps the spur of a national crisis was all that was needed.

It is obvious that much could be done toward making the U.S. less dependent upon foreign sources by granting more of our rigidly controlled quota permanently to mainland producers. Such protectionism as this involves would cost little more than the present system, considering the premium now being paid to foreign producers who are granted allotments.

This is not merely an idea sponsored by domestic producers; in fact, several spokesmen for these groups have stated flatly that our ties to overseas sources should be maintained as a stabilizing factor and that it would be better to keep the present controls on mainland production than to expand acreage on only a temporary basis. Significantly, the domestic producers also are the first to grant that there are compelling reasons why our sugar trade with Cuba should be resumed as soon as practicable.

Offshore sources

Our offshore domestic suppliers—Hawaii, the Virgin Islands and Puerto Rico—could also expand their production somewhat, but not to any great extent. These offshore sources failed to meet their quota by about a half-million tons last year. Hawaii is apparently producing as much as it can and has, incidentally, an operation so efficient that a Hawaiian acre produces five times as much sugar as a Cuban acre. Some of this know-how could be exported to Puerto Rico and the Virgin Islands, but this would amount to only another drop in an extremely large bucket unless given all-out help from government action.

The last, and best, possibility is that undeveloped areas in other countries can produce more than at present. They not only can, but are eager to do so—again if given the same guarantee of long-term stability as that asked by domestic producers. The Director General of the National Union of Sugar Producers of Mexico asserted soon after the Cuban break that his country was ready to provide a million tons of sugar a year for the U.S. market, as compared with a previous quota of 115,889 tons. Studies indicate that this could be done and that facilities in Brazil, the Dominican Republic, and other Central and South American countries could be expanded enormously under the proper climate for risk and development capital.

Thus, the sword which Cuba's revolution endeavored to use against the U.S. is proving to have a double edge. Not only can our dependence on overseas sources of sugar be reduced by spurring domestic production, but hundreds of millions of dollars in trade, which formerly went to Cuba, can be used as a potent bargaining force both in this hemisphere and elsewhere. Most of the emerging, underdeveloped nations are located in tropical climes and some of them already have the rudiments of a sugar industry.

Actually, there is no need for a crash expansion and investment program to fill Cuba's former quota. A government estimate placed the immediately available sugar surplus abroad at about four million tons. The world consumption of sugar is growing, however, and the surplus provides only a very slim margin of about a half-million tons between

what we have lost and what we may cull from other world markets.

The new Administration has made it plain that it contemplates no resumption of the sugar trade with Cuba under its present government. At the same time, it is an open secret that no one in the U.S. sugar field believes that the Castro group can remain in power long. Our

piecemeal, almost month-by-month extension of the Sugar Act in the early part of this year indicated this.

In Cuba the economic pressures resulting from the loss of the sugar market are tremendous. In the last full year of trade with the U.S. the Cuban economy received $350 million from the sale of its raws here. Of this about $150 million was in the form of premium payments in excess of the world market price. Had the revolutionaries been less hasty, of course, they would have had an excellent chance of financing many of their reforms through the sale of this one product. As it is, the Cuban leaders are openly derided for having fumbled such an opportunity, and Cuba is a drain on the hard-pressed economies of the Communist states.

The Soviet Union, to which Cuba has turned for aid, had an estimated sugar beet harvest sufficient to produce about 7.5 million tons of sugar last year. This is ample to provide the nation with its customary per capita ration, which is about half that of the Western countries. The Soviets consequently have recently peddled Cuban sugar to Finland, Jordan and Iran. Egypt's Nasser has also reportedly resold Cuban sugar at a profit. China had a planned production of only 1.5 million tons of sugar, but still is offering that obtained from Cuba to Southeast Asian countries in order to obtain foreign exchange and push its penetration of that area. Both the Soviets and the Chinese are paying for only about 20 per cent of their Cuban purchases in cash; the rest of the payment is in the form of barter goods on which they set extremely high prices. The net loss to Cuba is enormous.

These shiploads of raw surplus Cuban sugar—for which neither of these Communist nations have adequate mills—do have a potential explosive aspect, however. Some attempts to get Cuban sugar into the U.S. are to be expected. Moreover, we are almost certain to purchase sugar from countries such as Canada which are supplying their own needs with lower-priced Cuban raws while exporting their own product. Another possibility is that contraband Cuban sugar might come into the U.S. via one of the Communist trading concerns. Thus, we would not only be contributing to Cuba's support indirectly, but would fatten a Soviet or Chinese middleman as well.

Our Justice Department, which is just winding up a long antitrust inquiry into the activities of American sugar companies, may have a different legal problem to tackle shortly —i.e., after how many changes of ownership does Cuban sugar become suitable for import into the U.S.?

All this illustrates a vivid and inescapable economic point: Cuba's natural market for her sugar was—and probably remains—the United States. In addition, the advantages extended to the Cuban companies by the U.S. were tremendous. Generous shipping discounts were offered. Under one provision of the Sugar Act, domestic production was to be cut back if Cuba's share of the total U.S. market dropped below 28.6 per cent of our total consumption.

Such advantages may never be restored, regardless of the outcome of the present conflict, since they have been subjected to critical scrutiny and appraisal. Perhaps the worst aspect of the entire fiasco is not that we will no longer extend such favors as a matter of course but that an economic exchange beneficial to both parties has been ruptured almost beyond repair. This exchange could have evolved peacefully in any direction desired had it not been made a political issue. Having turned into a pawn of politics, this trade will be extremely difficult to revive. Unhappily for the Cubans, the principal sufferer in such a contest inevitably is the smaller member. The larger combatant, if he wishes, can gain from his new maneuverability. ■

Whatever the means, quality costs more

TV, Teaching Machines and Teachers

by ERNEST O. MELBY

■ TECHNOLOGICAL processes and devices have burst like an exploding fireworks bomb on the educational sky. Educators and lay people interested in education hail television, teaching machines and related technological developments as harbingers of a new day in education. Taxpayers think the new devices will reduce the cost of education, school administrators think they will cure the teacher shortage and educators see them as the means for increasing educational efficiency.

Discussion of television and teaching machines in professional gatherings is marked by a one-sided concern with the mechanics of the new devices. For instance, it is confidently pointed out that airborne television enables us to "talk" to so many millions of students. But little is said about the lessons to be broadcast or about the children to whom they will be directed. A preoccupation with educational technology appears to obscure our real and continuing educational problems. People may begin to feel that a school is modern and effective because it employs television and teaching machines. It may be forgotten that the new devices are merely tools; they do not and cannot

solve fundamental educational problems.

Several factors contribute to the eagerness with which many seize upon the new devices. The precarious world situation and the nationwide obsession about the importance of science have caused people to look for breakthroughs in the educational process. Such domestic concerns as juvenile crime, political corruption, stubborn racial discrimination, lags in housing, governmental and educational inefficiency contribute to the urgency of the problem. For all these the universally prescribed remedy is more and better education.

The rapidly increasing numbers of students in colleges and universities as well as in elementary and secondary schools have created shortages of teachers and buildings. The total cost of educating all the children of all the people has become enormous. Now that they see what it costs, some are beginning to doubt the policy. Hence the hue and cry about the gifted, the emphasis upon a return to the narrow curricula of earlier years, and a call for television, teaching machines and whatever else may reduce the cost.

Thus the educational challenge grows in magnitude and difficulty while the educator finds himself under increasing fire and facing greater financial problems. No wonder he hopes for rescue from television and teaching machines! How valid are these hopes? Can machines replace teachers? Will the new devices reduce educational costs? Will these devices give us more effective education?

To evaluate the burgeoning array of technological devices, we need to examine educational goals and processes. There is, first of all, the popular assumption that education is primarily the acquisition of knowledge. The educated man is one who knows a lot. He can recall dates, describe battles, solve equations and translate languages. If we accept such a view of learning and teaching, it becomes a simple matter to see television as a near panacea in education. Why cannot one master lecturer, given enough rooms, chairs and TV sets, present his material to 1,000 students at a time?

But many people do not accept this view of learning and teaching. They hold that what one *knows* is only part of his education, that what one *is* and what one *does* is more important.

If our goal is the education of the individual as a whole man, then what is the place of the new educational technologies? We do not know

very much about the process of character development. But it appears that knowledge is not enough. Great students develop around great teachers who are themselves great students and who have attained a high level of humanity. While some of this "humanity" is communicated in lectures and even over TV, students *usually* prize and remember their more intimate contacts—office conferences, laboratory relationships and personal friendships.

Means for raising quality

If one believes that character development and personality growth are of at least equal value with the acquisition of subject matter, he will not be so sanguine about the promise of educational technology.

The real promise of television and teaching machines is only apparent when we stop thinking of these technical devices as substitutes for teachers, cures for the teacher shortage and ways of reducing the cost of education. We must view them solely as means for raising the quality of education. Let us therefore look at the new technical means not as replacements for teachers but as aids to teachers; not as devices which enable us to employ less competent teachers but as a means for adding to the effectiveness of those who are competent!

The teaching profession has so far benefited little from the technological revolution. Teachers write their own letters, cut paper, do routine checking of papers and tend to endless detail. Even at the college level professors have difficulty getting clerical and research assistance. One result is that teachers are too busy with detail to prepare lesson plans, to collect material and to develop instructional devices. The television teacher, however, is given plenty of time and almost unlimited access to resources, both human and material. The regular classroom teacher cannot remain unaffected by his observations of such outstanding teaching performances carried out under optimum conditions. Nor can students fail to be challenged by these fine examples of good teaching.

But let us look at what we have done. We have not reduced the number of teachers or the cost of education. In fact, we have added to the cost in order to develop the television lessons and bring them to the classroom. So used, television will *increase* the cost of education. But it enables us to bring the best teaching to all of the children. One Leonard Bernstein can speak and play to all.

While Bernstein says a great deal, even without the help of a teacher in the room, the creative teacher who views the program with his students can enhance what students receive from a Bernstein. Similarly, an insensitive and incompetent teacher can do little to help his pupils. Actually, the use of television to bring creative personalities into our classrooms calls for *better* classroom teachers, not less competent ones. And to get better teachers will, of course, increase the cost of education.

We must not assume that students observing a television teacher have the same experience as students who are taught by these personalities in person. One cannot ask questions of the television teacher. Nor can one readily go to the television teacher's office and ask for help or engage him in a stimulating conversation. Television teaching is one-way communication.

Let us now consider the question of productivity in education. Wages

in industry can be increased as productivity per man-hour is raised. Why cannot the productivity of schools and colleges be raised? In my view, teaching is an art, and true art does not lend itself to separation of planning and performance. Each student to be taught is a unique organism. He is a *person* and must be dealt with as such. Actually, we cannot educate others. They must educate themselves. The role of a teacher is the role of a helper, and he must always be mindful of whom he is helping. Two teachers who each teach 20 pupils are not equal in output. One may help several of his pupils to be original scientists, while the other may cause most of his pupils to dislike science.

Educational output?

There are other difficulties in trying to apply the "productivity" idea to education. Suppose that if classes were reduced in size by one-half, the total achievement of all the pupils would be tripled. In this case *apparent* productivity would decrease but *actual* productivity would increase. However, the usual yardsticks we apply to measure productivity may not tell the story. In the same class in physics, for example, one student may get an A, the other a B. Yet the B student may be the one to become a physicist. Thus if we substitute one professor and two television sets for three professors, we have no assurance that equal results in examinations in the two situations mean equal educational output—if, indeed, we can use this term.

The teaching machine development must be viewed in a somewhat different light. A teaching machine is a mechanical device for presenting "programed" material—that is, information broken down into step-by-step organization—so as to require a student to indicate an answer, supply a word, etc. The device makes it possible for the student to immediately check his response. If correct he goes on to the next step; if incorrect additional exercises are supplied.

In a sense the teaching machine is the descendant of earlier work in diagnostic and remedial teaching that received considerable emphasis more than 30 years ago. Several of my students at that time analyzed the processes involved in arithmetic, algebra and geometry, organized diagnostic tests around these special skills and developed remedial exercises designed to correct the learning difficulties discovered. The teaching machine is a mechanical device for accomplishing the same purpose. Both of these developments represent the effort to promote self-instruction and individual progress. Thus, the teaching machine helps the student to discover his own errors and enables the teacher to have students working simultaneously at many different rates and levels. While students are at work with these devices the teacher can give attention to individual students.

Several questions are raised by these devices. If widely used, such machines could become very important in deciding how a subject would be taught. Certainly the classroom teacher using such machines would find himself without much control of the teaching, since the machine is so operated that the student must work his way through the material and cannot readily select, add or eliminate material. Moreover, the machine introduces flexibility in rate of progress, but little or no flexibility in the nature of the content. It would appear that widespread use of these machines would tend to stress subject matter rather than students, and constitute a brake on creative teaching adapted to the unique capacities of pupils.

Disappointing results

Let us look at the impact of both television and teaching machines on the organization patterns of educational institutions. For at least three decades some educators have sought means whereby the industrial management system of separation of planning and performance might be applied in education. Between 1920 and 1940 more and more decisions in education were taken away from the teacher and given to superintendents, principals and supervisors. The results were disappointing and the last 20 years have seen considerable decentralization. We expect teachers to function as fully competent professional workers who do not need to be told what to do. Greatly increased knowledge about education has meant more demands on the teacher. This, in turn, means that the teacher must have a full professional preparation. Highly trained teachers are unlikely to accept the separation of planning and performance in education. Moreover, if such a separation were forcibly applied in an effort to save money or employ less competent teachers, the final results could be very destructive for true education.

"Learning machine"

Teaching machines are, in a sense, devices that separate planning and performance in education. So are textbooks. But the textbook is a less rigid control than the teaching machine. The term "teaching machine" is unfortunate. It tends to endow these practice-exercise devices with undue significance. "Learning machine" would be a better term.

Viewed and utilized with perspective and understanding, the current developments in educational technology promise to vitalize the education process. But overenthusiastic acceptance of television and teaching machines as solutions for inadequacies in our education can lead to a watering down of education within the schools and confusion among the public outside the schools. Too many people, primarily interested in reducing educational expenditures, have led the public to believe that television and teaching machines would cure the teacher shortage and lower educational costs. If we forget about saving money and saving man-hours, and concentrate on enriching and energizing education, we can expect good returns from the introduction of the new devices.

When this application of technological advancement takes place in education we shall be repeating what has already happened in other professions—medicine, for example. The more new drugs and new machines find application in medical practice, the more costly medical service becomes. But it is also incomparably improved. If we in education utilize the new devices with wisdom and awareness of the meaning of education, teaching and learning, we must be prepared for higher costs. We shall also need more personnel and higher levels of preparation. But we can justifiably hope for better education. ■

Challenge Interview

BEN D. SEGAL

Education Director, International Union of Electrical, Radio and Machine Workers (AFL-CIO)

A Unionist's View Of Economics Education

Q *Mr. Segal, as the Education Director of a major union, how do you see your responsibility for economics education? Is it to educate your members on specific issues or on the functioning of the economy as a whole?*

A Actually, it's both. Our first task is to educate our membership, primarily through our stewards and local officers, to understand their jobs and the agreement they have with the company. We teach them how to negotiate agreements, how to handle grievances, and so on. But we are also trying to help them to understand the economic issues of the day.

Q *Is your purpose, then, to educate them as citizens as well as union members?*

A Yes, very definitely. We have found that unless we educate our members as citizens, they don't understand and don't fully support the union's position.

Q *Are you more concerned with issues, such as automation, or with concepts, such as labor's place in a private enterprise economy?*

A That's easy to answer. It's both. My personal tendency, however, is to concentrate more on the issues. I have a feeling that this is one area in which the unions haven't done enough. This applies to the whole field of legislation and political activity. I think that we've been guilty in the past of placing too much stress on the mechanics of registration and getting out the vote. We've fallen down, I think, on the job of educating our members to understand the issues. Very often we have tended to rely on slogans instead.

Q *Could you give an example?*

A Surely. Take the question of increasing the minimum wage. We should educate our members to understand why such an increase would benefit the economy as a whole. None of our people are making less than $1.25 an hour, so an increase in the minimum wage wouldn't benefit them directly. And there are many other proposals that we support as a union that may not seem to have a direct and immediate bearing on our members' welfare.

Q *Can you elaborate on that?*

A Certainly. There is the question of medical care for the aged. In many of our plants down South we have a lot of young people. Many of them do not understand the significance of this issue. Their immediate reaction is that it doesn't concern them. In the area of international issues, one of the great difficulties I find in education work is to get people interested in problems whose immediate impact appears to be remote. They tend to feel that if a problem is far away, then it doesn't really affect them.

Q *How do the executive board and individual members feel about using union dues for a program that does not immediately benefit the membership?*

A First, I'd like to say that we are engaged in a great many activities. Most of them are aimed at promoting the interests and needs of our members. As to stressing issues that have no obvious direct benefits to our members, let me give you an example. Every month I send out a package of pamphlets and other materials to the officers of our locals. I make a point of including literature of a general nature. Very often it will carry the name of a union officer who is on the board of the organization that publishes the literature. Maybe it's the United World Federalists, or the National Planning Association, or the Religion and Labor Foundation.

Q *And do some of your members ask why their officers take time for activities like these?*

A I'm sure they do in some situations. Some of our people in Georgia may have strong objections to a union officer serving on the board of the National Association for the Advancement of Colored People. And recently our union newspaper carried a story about the tent city in Tennessee in which Negro sharecroppers were living. They had been evicted because they had the audacity to try to vote. We received a call and a wire from our local in Memphis asking why the union had to get involved.

Q *Do you get reactions like that often?*

A If an issue is hot enough, such as that one, there will be protests, because unions are a cross-section of the American population with the convictions and attitudes of all segments of our society. On the other hand, the union's position is pretty clear-cut on civil rights and on other public issues. After all, we feel that our union is not just a bread-and-butter organization. We are try-

ing to impress our members with the idea of being good citizens of the community and the country.

Q *What is your attitude toward economics education programs by management? Do you think management has the right to distribute any kind of material it wishes?*

A As a firm believer in civil liberties, I'd find it difficult to say that management hasn't that right. But I must confess—and perhaps this is a biased point of view based on my experience in the trade union movement—most of management's so-called education material that I've seen tends to be propagandistic. It has an ax to grind and doesn't make any attempt really to discuss the issues. And, while I do not want to generalize about management as a whole, at least in our industry more often than not this type of literature is antiunion or aimed at undermining the union.

Q *Do you feel that the literature in the union-sponsored education programs is of a different type? The unions also have an ax to grind, don't they?*

A I recognize that. But the fundamental and overriding question is always this: For whom is the ax being ground—for the vast majority of the American people or for a minority of wealth and privilege. But if you compare some of the economics education material put out by the unions with that put out by management, I think you'll often find considerable differences. The unions, I feel, try to be more objective. For instance, when we present factual materials, we tend to rely on government statistics.

Not an all "black-and-white" situation

Q *Do you feel that much of management's literature is aimed toward the next bargaining session and that that is not so true of your material?*

A Yes. I'd agree with that. But I don't want to represent this as an all black and an all white situation. I'm sure there are some unions that are often guilty of sacrificing facts for opinionated prose. And I'm sure there are some management groups, such as the Committee for Economic Development, which try to be objective. On the other hand, some management organizations—such as the National Association of Manufacturers and the U.S. Chamber of Commerce—produce material which is obviously propaganda for their point of view.

Q *Let's be specific. How about the question of labor's role in productivity? In many industries management has been saying that no raises are in the offing because there has not been an increase in productivity. What's your opinion about this?*

A I think that there obviously have been increases in productivity. We just have to look at the growing unemployment in our industry and at the productivity figures of the leading corporations that we deal with, such as General Electric and Westinghouse. While productivity has increased, the work force—especially among blue-collar workers—has declined. This, to me, is further indication that productivity has risen. I think it is generally accepted that we've had tremendous increases in productivity while employment has declined.

Q *Isn't part of the productivity increase due to management's investment in new equipment and research?*

A Well, how do you separate them? Obviously, both labor and investment are responsible for increases in productivity. And of course we recognize that the more we feel the impact of automation, the more we can point to the machine as responsible for the increase in productivity. But, regardless of who or what is responsible, the fact remains that we have had a considerable increase in productivity.

Q *Would you agree that a business has a right to be rewarded for its investment in new machinery by earning a profit?*

A Well, obviously, the trade union movement as a whole accepts the concept that a company has to make a profit. That's why they are in business. And we are all for their making a profit, because we know that a business that isn't making a profit naturally tends to lay people off and close plants. But if you look closely at some of the figures of profits and wages, you find that it isn't a question of management not getting rewarded; very often it's more a question of making sure that the work force shares in this reward.

Q *Would you say that probably the number one problem facing labor today is the question of automation?*

A I would rather call it the results of automation. There's no question that how we handle the impact of automation is probably the most important and the most difficult task we face. And this, of course, brings us back to the question of productivity. Management, increasingly, has been able to produce more goods with fewer workers. Since my union is comprised primarily of production and maintenance workers, we are naturally feeling the impact of automation. I suppose that if we were more successful in organizing the professional, technical and white-collar groups, we would not be feeling this so strongly.

Q *Are you trying to block this trend to automation?*

A Definitely not.

Q *Then what, in your opinion, is the solution? How can the transition be eased?*

A Easing the transition means planning for it. It also involves the policy of the federal government. Obviously, we must have a considerable expansion of our economy. We heard this question debated by Kennedy and Nixon in the last Presidential campaign.

Q *With automation, we're going to have fewer and fewer blue-collar workers. Since you indicated that unions have had difficulty organizing white-collar workers, does this mean that the membership and strength of American unions will decline?*

A Well, to understate the case, there hasn't been any exciting growth in the trade union movement in recent years. The best you could say is that the unions have been holding their own. Probably, if you look closely at the figures—at the percentage of the work force organized—you will see some sort of decline.

Q *What does this mean for the labor movement?*

A It means that organized labor has some serious problems to face up to. One of these is that of doing a more

effective job in organizing the professional, technical and salaried groups. We've been successful in organizing these groups in some of the instrument and engineering plants in New York and New Jersey. This makes us think that the job can be done more extensively.

Q *Why is it more difficult to organize a salaried man than a production worker?*

A I have a feeling that it involves status. The salaried man tends to identify himself with management, or just professionalism. I know from my own experience that employees such as clerks in a department store or those with low-paid office jobs look upon themselves as being in a different class from those who work with their hands—even though production workers often earn more. I remember getting into discussions with young women college graduates in the South who were working in stores and offices. Their sense of identification with the managerial group—not with the working group—was very important to them. They were horrified when I told them that their interests were essentially the same as those of the textile workers.

Q *How did they feel about unions?*

A They were afraid of them. Because of their feelings about status, they thought of unions as only for those who worked with their hands. I think, too, that the problems the union movement has had in recent years have been partly due to the revelations of union corruption brought out in the McClellan Committee hearings. They have considerably lowered the status of the labor movement in the community.

Finding out the most effective approach

Q *There is a widespread idea, then, that the white-collar man is somehow in a superior position to the blue-collar man. Would you agree that this status question is the biggest obstacle to unionization?*

A I would. I'd also like to add that the unions themselves haven't done as much as they should. They have to recognize that they must approach a technician, an engineer or an office worker in a different way than they approach a production worker. We have to do a good deal more work in finding the most effective approaches to the white-collar worker.

Q *Is this a communications problem?*

A It certainly is.

Q *Would you say that the type of literature you've been putting out for your blue-collar people may not be suitable for organizing white-collar workers?*

A That's right. And I'm not sure that the type of thing we've put out in the past for the blue-collar workers meets the needs of these same people today.

Q *What is the main obstacle to reaching these people?*

A The problem, as I see it, is this. We have, in the main, an inactive kind of membership in the trade union movement. One could say that in too many cases we have a "crisis" membership. Members participate in the union only during times of crisis—during strikes, negotiations or mass layoffs. As a result, in many cases we don't reach the bulk of our membership on a consistent basis.

Q *Who does reach them?*

A The commercial communications media, naturally. And in smaller communities in many parts of the country, the media that reach them tend to be unfriendly to organized labor—to put it as mildly as possible. Furthermore, in an industry such as ours, corporations like General Electric have intensive and extensive programs of communicating with their employees.

Q *Would you say that General Electric has been successful in its communications program?*

A Yes, if you judge it by their ability to get their point of view across to both their employees and the communities in which they have plants. But I think they are going to have a rather more difficult communications job now because of their recent conviction, under the antitrust laws, for rigging prices.

Q *Your union's communications media have been hitting them rather hard about this, haven't they?*

A Yes. We have felt it our duty to point it out, especially since the commercial press hasn't wanted to offend these big advertisers. Except in New York and Washington, and some other places that have good newspapers, it's amazing how little play has been given to this case.

Q *Would you agree that your job in some of these smaller communities where you have members is basically to supplement the local news media which you feel don't get the full story across to your people?*

A Yes. And I've already talked about the problem of doing this. Some of my academic friends would say that we are living in a pluralistic society; that the worker who belongs to a union also belongs to a host of other organizations. In many cases, one must add to this the fact that many people are bored with their work. Once they get away from their work bench they tend to forget everything about work. Since the union is identified with work, they forget about the union too.

Q *I'd like to turn to one of the specific issues that has frequently come up in both union and management communications programs. Management has often said that American products are being priced out of the world market because of high labor costs. Do you feel that this is so?*

A It has become a popular cry on the part of big business that we are pricing ourselves out of the world market. During the recent steel strike it was one of the main arguments of the steel companies. The fact is that if labor asks for any kind of a wage increase, management replies that it would price us out of the world market.

Q *Do you feel that there is no problem, then?*

A Of course there is one. I recognize that we have to face competition from Japan and other countries. What I am suggesting is that the problem often isn't fairly presented by management and often exaggerated.

Q *Should we raise tariffs to protect the jobs of American workers and safeguard their high wages?*

A I would answer that we have international commit-

ments. We have to allow foreign goods to come here. We can't take the position that we should keep out any goods that compete with those made in the United States. That would be cutting off our nose to spite our face. For instance, we still export from three to four times more electrical goods than we import.

Q *Am I right in thinking, then, that you are not in favor of higher tariffs on foreign electrical goods?*

A No, I'm not. There may be some situations in which adjustments should be made, but I'm certainly against the idea that foreign competition, as a whole, should be met by raising tariffs.

The need for adjustments

Q *Do you think that existing tariffs should be lowered?*

A I think that the present reciprocal trade program is adequate. Hearings can be held when there are unusual hardships and, if it is thought necessary, a specific quota can be raised. We have to honor our international obligations to allow foreign goods to come here and, at the same time, recognize that there is a problem of foreign competition. This means that we will have to make some adjustments. When foreign competition throws American workers out of jobs, something needs to be done. For instance, the government might have to consider a program of subsidizing workers while they are being retrained for other jobs.

Q *Is that the general view of most trade unions?*

A Well, the Amalgamated Clothing Workers is now going to boycott Japanese goods. I know that the Textile Workers Union also feels very strongly about this question. The trade union movement is certainly concerned about foreign competition. Even within the IUE, I'm sure that in areas which have felt the direct impact of, say, Japanese competition, you'll find views completely contrary to mine.

Q *Do you feel that, in this matter, some labor unions are being shortsighted and selfish? Aren't they thinking of themselves narrowly as workers without taking the whole national picture into account?*

A Well, who was it that said that you can only eat in the short run? If you go to an area where a factory has been closed because of foreign competition and talk to people who lost their jobs, what do you find? Workers say, "What can I do with this wonderful philosophy of reciprocal trade? Can I eat it?"

Q *How do you feel about management's frequently expressed contention that wages are getting too high in relation to productivity and therefore impairing our ability to compete?*

A It has struck me forcibly that management is always asking labor to make sacrifices, but we never seem to hear of management making offers to sacrifice some of its profits in order to meet foreign competition.

Q *In union education programs, how much stress is given to the notion that the incentive to invest is substantially based on the incentive to reap a profit?*

A I think we accept this as a fact of life.

Q *And you don't think that this incentive would be lessened if, let's say, a company should make a self-sacrificing gesture to cut down on its profit margin?*

A I think if the only incentive a business has is to make an exorbitant profit, its management had better do a little soul-searching and stop issuing pious claims about how much it is doing for the country. My opinion is that sacrifice is a two-way street. Management is constantly calling on the work force to make sacrifices; let's see a little sacrifice by management, too.

Q *What, then, is your evaluation of industry's economics education programs?*

A During the past three years I have made a point of looking at as much of this material as possible. My opinion is that—with some outstanding exceptions—it has mainly been aimed at pushing industry's point of view on economic issues. It raises the cry of socialism and the welfare state, and warns against encroachments by the central government. And in our industry, it has been tied in with a very strong antiunion position, especially on the part of General Electric. For instance, GE material labels the union's programs and beliefs as socialistic and aimed at undermining free enterprise.

Q *Do you think there is any truth to these allegations?*

A Obviously I don't. Indeed, I think that the American trade union movement is perhaps more dedicated to free enterprise than some of our major corporations are. For instance, General Electric probably has devoted more space in their propaganda to harping on the need for meeting competition than on any other issue. They must have found it very embarrassing when they were convicted of undermining the competitive system.

Q *Do you think that economics education programs sponsored by management do any good?*

A I mentioned before that there is one business organization whose material I have seen and which preserves its integrity and does a pretty good job. That's the Committee for Economic Development. But I think that in many cases materials labeled economics education are nothing but propaganda.

Q *But can a company justify to its stockholders a program that really doesn't serve the company's immediate interests? In other words, can it justify a program that is purely educational?*

A Yes. In fact, I think that some of the work that best served the interests of an industry has been in the field of public service. Take, for example, the TV programs sponsored by Bell & Howell. One of the shows was an excellent documentary on the situation in Cuba. And they have put on other shows of that kind.

Q *But isn't the Bell & Howell program institutional advertising and not a communications program?*

A Yes, actually it is.

Q *What, then, in your opinion, is the object of management's communications programs?*

A In many cases, management sees them as a means of

communicating with their employees on union issues by going around the union leaders. Such communications are carried on most intensively when the union is involved or is preparing to get involved in negotiations. And the communications are aimed at belittling the union and undermining it and its leadership. You can understand, therefore, why there is so much suspicion on the part of the unions of management's so-called communications and education programs.

Q *You say there is suspicion on the part of the union. But how about the workers? Are they as suspicious as the union's officers and stewards?*

A Probably not. Although there have been some studies made by management that show that, at least in the past, a good deal of management's communications were ineffective and weren't accepted by the workers.

Q *Do you feel there is a need for some sort of objective communications program on economics, one directed not only to the work force but to the public at large?*

A There is no doubt in my mind about the need for an effective economics education program.

Q *And what would be the content of such a program?*

A First of all, people need to have an understanding of what makes our economic system tick. Also they need to have some comprehension of the government's role in our economy. Then, too, I think that we would have to spend a good deal of time in teaching people to understand the whole concept of economic growth. Inflation is another area in which understanding is needed. And there is a need for more knowledge and comprehension of the relationship of our economy to the rest of the world.

Q *Would you include discussion of the role of profits, incentive and investment in creating new jobs?*

A Certainly. I would also include the nature of productivity and the impact of automation.

Productivity and wage increases

Q *Would you want to establish that there is a relationship between productivity and the amount by which wages should be increased?*

A I would very much welcome tying wage increases to productivity, but merely as a concept. The exact percentage by which wages would be increased when productivity rises would naturally have to be negotiated.

Q *Do you believe that you could sponsor an economics education course that your union's executive committee or board would feel is useful?*

A Certainly.

Q *Would there be any objection to a booklet on the role of profits in our free enterprise system? Could you get away with distributing such material?*

A I don't have any doubt about that. I could.

Q *What do you think of the type of program sponsored by organizations in which both labor and management are represented—such as the National Planning Assn.?*

A It's a very healthy approach. I've done some work with the National Planning Association and I think they do a good job.

Q *Do you think there is too much of an attempt to get a consensus in these joint efforts and, as a result, that the final product gets too watered-down?*

A Perhaps that is true. But, on the other hand, wouldn't we be better off if we had more consensus and less conflict? Conflict is not necessarily bad, but we ought to have more avenues for reaching a consensus.

Q *To recapitulate, do you feel that the economics education programs of management are lacking in academic honesty and that their material has not been purely educational?*

A With very few exceptions, I'd say yes.

Q *Do you envisage the possibility—and this could have tremendous impact on industrial relations—of a joint union-management venture to sponsor an economics education program?*

A I certainly do. Perhaps it could best be sponsored by a university organization, such as yours.

Q *But would the unions and management be willing to underwrite the cost of such a program if they had no say in the conclusions or final product?*

A I'd be very much surprised if many companies would go along, since, up to now, the content of their programs has been directed to specific propaganda issues. But, speaking for myself, I'd be willing to try such an approach.

Q *Would you be willing to go in with General Electric on such a program?*

A If it would be possible I'd be willing. But when you pick a company like GE, you're going to have a problem until they change their attitude toward labor. However, there are a number of corporations in the country whose reputation with the labor unions is much better than GE's. There would be much more hope of a joint management-union program with these corporations.

Q *Can you mention some firms whose communications programs are not marred by ax-grinding?*

A When one uses communications programs in the broad sense, the International Harvester Co. comes to mind. Their program is accompanied by a generally enlightened policy on the part of the company. Specifically, I'm thinking of the whole field of civil rights and the hiring of Negro workers. In this case you find both union and management using their communications programs and power to advance civil rights.

Q *Have any companies that you know of gone into economics education in a completely objective manner?*

A I must confess that I can't think of a single company that has done an unbiased job.

Q *Would labor welcome such an effort, if it existed?*

A If the effort were sincere, and if labor approved of the organization that was doing the job, I'm sure that the unions would welcome it.

Q *Thank you Mr. Segal.* ■

Western economic cooperation

ABC's of the OECD

by DAVID W. MacEACHRON

■ ON THE 14th of December, 1960, in Paris, diplomats representing 20 nations of Western Europe and North America signed the convention to create the Organization for Economic Cooperation and Development (OECD). The U.S. Senate ratified the convention last month, and the organization is expected to come into existence by September 30, 1961, or sooner.

Jean Monnet, a leader among the group of practical visionaries working for a united Europe, recently spoke of the OECD in these terms: "With many people in Europe, I regard the creation of this new organization as one of the most important events since the war."

When he urged the Senate to approve U.S. membership in the OECD, President Kennedy said: "The OECD, in which the industrialized countries of Western Europe, the United States and Canada will be joined, is of vital importance for assisting, on a cooperative basis, the developing countries of the free world. It will also provide a solid framework within which we can carry out intensive and frequent international consultations on the financial and monetary policies which must be pursued in order to achieve and maintain better balance in the international payments position."

These two statements stress the importance of the OECD, and this at first glance, is paradoxical. The OECD is described in the convention as nothing more than a "reconstitution of the Organization for European Economic Cooperation" (OEEC), which is a little-known, although highly useful, organization. To see the significance of this action, it is necessary to look first at the OEEC and then at why it will be changed into the OECD.

When Secretary of State George C. Marshall gave his historic speech at the Harvard commencement on June 5, 1947, he touched upon certain conditions which the Americans felt would be essential for an effective aid program. Among them was a European effort in which each nation helped itself as much as possible while rendering as much assistance as possible to the other European nations.

Within nine months the OEEC had been formed as the instrument for West European cooperation. The members were: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom and West Germany (at the beginning of the Marshall Plan, Germany was still under allied occupation). Subsequently, Spain joined.

Vital tasks

During its hopeful and hectic first years the OEEC performed many vital tasks. It divided the American aid among the recipients, instituted a successful program to break down the trade and payments barriers which hobbled European economic growth, helped to bring a new rush of innovation and vigor to the economies of Western European states, and trained a large corps of officials in all member countries to understand each other's problems.

At first, the relationship between the United States and the badly battered nations of Western Europe was decidedly one-sided. The United States gave generously of its advice, as well as its assistance. The European nations heeded the advice when they felt it desirable or unavoidable to do so. Relations, however, were for the most part good. Still, the donor-recipient relationship was there. As the recovery in Europe gained so did the self-confidence of the Europeans. An overt sign of this was the decision of the United States and Canada to become associate members of the OEEC. They never went beyond this, however, and never took on the full responsibilities of membership.

The OEEC was never intended to be a permanent organization. The fact that it was linked directly to the recovery effort in Western Europe led to a presumption that when this was accomplished it would be reconsidered. By 1951 production in Europe exceeded prewar levels by a significant margin. By late 1958 it was possible for all the major currencies of Western Europe to be made almost fully convertible.

Three other major developments made the reconstruction of the OEEC inevitable. First, the drive for a greater degree of economic intergration in Europe produced the European Economic Community (EEC) and later the European Free Trade Association (EFTA). The European Economic Community (France, Germany, Italy and the three Benelux countries) is an ambitious scheme to create a single economic entity by eliminating all barriers to the movement of trade, capital and labor among the members. The other new European group (Britain, Austria, Denmark, Norway, Portugal, Sweden and Switzerland), although its aims are not so far-reaching, also contemplates the eventual elimination of all obstacles to trade among its members.

These two groups within the OEEC posed a new obstacle to the integration of Western Europe. In spite of continued efforts, no way of bringing the two groups together has been found. By the summer of 1959 concern was growing in the United States and in Europe that this economic division might lead to a weakening of the political cohesion on which Western security rested.

The second important change

which influenced the development of the OEEC was the drastic increase in the deficit in the U.S. balance of payments which began in 1958 and has persisted to the present. At the same time, countries of Western Europe, notably Germany, were rapidly accumulating international reserves. The more the United States examined the possible remedies for its deficit, the more evident it became that cooperation among the North Atlantic nations was necessary. The United States had an important reason for seeking some form of association with the other developed nations which would permit extensive consultation on mutual problems.

The third factor making for change in the OEEC structure was the growing awareness of the need for more Western European assistance to the underdeveloped nations. Increased competition from the Soviet bloc helped to make the problem more acute. The United States was under pressure on its international account which made foreign aid a much more apparent drain on resources than before; on the other hand, reserves were accumulating in Western Europe. Clearly, Europe had to assume a relatively larger share of the burden, even if the absolute contribution from the United States was not to decline. A mechanism to insure more European cooperation was needed.

In January, 1960, a meeting of the 18 members of the OEEC, plus Canada and the United States, was held in Paris. Representatives of the EEC also participated. At this meeting the then Under Secretary of State, Douglas Dillon, stated U.S. conclusions on these questions.

He pointed to the danger that the growing division in trade in Western Europe "might weaken the cohesion of the free world." He also spoke of "the danger that, in an effort to solve the regional European trade problem, measures might be taken which could seriously impair the worldwide trading principles established in the General Agreement on Tariffs and Trade."

This latter statement was a polite way of saying that the U.S. would not be pleased, given the state of its balance of payments, if the Europeans resolved their trading problems among themselves by giving each other's goods preferred treatment in violation of the principle of nondiscrimination, a key element of the General Agreement on Tariffs and Trade. Such action would make it harder for the U.S. to sell in Europe and thus would aggravate its balance of payments difficulties.

Dillon referred to the need for greater European participation in development assistance, saying, "Many questions have been raised as to the best methods of mobilizing national resources for development assistance, and of bringing about a more effective exchange of views and experience among the capital-exporting nations."

Problems and pressures

Finally, in reviewing the need for greater cooperation between the nations of Europe and the U.S., Dillon stated, "We felt that study should be given to revitalizing and broadening the work of the Organization for European Economic Cooperation through the establishment of a successor organization in which the United States could become a full member."

The problems and pressures facing the participating governments were revealed during the negotiations to draft the charter of the new organization. The U.S. delegation frequently sought to dilute the language of the draft convention out of concern for the opinion of the Senate which would have to ratify it. This was particularly true of the commitments regarding international trade

matters and the coordination of economic policies. Another major crosscurrent in the negotiations was the fear of the smaller nations that the authority of the new organization would be less than they felt was consistent with their interests. They were unwilling to surrender the protection OEEC gave them in dealing with larger European neighbors.

As stated in the convention, the OECD will have three aims:

- "To achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries."
- "To contribute to sound economic expansion in Member as well as nonmember countries in the process of economic development."
- "To contribute to the expansion of world trade on a multilateral, nondiscriminatory basis in accordance with international obligations."

To carry out these sweeping aims the members will undertake certain commitments. These commitments, however, are stated in terms sufficiently general so that they can mean much or little, depending upon the will of the members. For example, they bind themselves "to promote the efficient use of their economic resources" and to "pursue policies designed to achieve economic growth and internal and external financial stability, and to avoid developments which might endanger their economies or those of other countries." OECD members will undertake to "contribute to the economic development of both Member and nonmember countries in the process of economic development by appropriate means and, in particular, by the flow of capital to those countries."

The new organization will have a relatively simple structure based largely on the OEEC. A council on which each member is represented, each with a single vote, is the body "from which all acts of the Organization derive." The representatives at council meetings will be of the rank of Secretary of State for meetings dealing with high policy and otherwise will be of Ambassadorial rank.

Decisions and recommendations of the OECD must be unanimous, but a member can abstain from voting; the decision is then not binding on the abstaining member but does

commit the others. This arrangement will permit the European members of the OECD to carry on purely European programs without U.S. or Canadian participation.

The Secretary-General, who is chosen by the council, will head the administrative arm of the organization. Thorkil Kristensen [see page 42], spokesman on finance for the Danish Liberal opposition, has been selected for this post. To make the transition smoother he has already assumed the position of Secretary-General of the OEEC.

As regards the specific work of the new organization, a nice balance was struck between the desire of those, led by the United States, who wanted to see the work program carefully pruned and those who wished to see the OEEC program carried on largely unchanged. Article 15 of the convention stipulates that recommendations and resolutions of the OEEC will continue in effect after the OECD is established only if the OECD council specifically approves them.

Special arrangements have been made for an early beginning on the coordination of development assistance flowing from the capital-exporting countries. In January, 1960, when it was agreed to reconstruct the OEEC, it was also decided to establish a temporary Development Assistance Group composed of six Western European countries (including all the main exporters of capital), the EEC, the United States, Canada and Japan. This body, which is now holding meetings from time to time to discuss development questions, will become the Development Assistance Committee of the OECD. Japan will thus be associated with one phase of OECD's work without being a full member of the organization.

Modest authority

The OECD is not a supranational organization and on paper its authority is modest. It is given little power to achieve its high and difficult objectives. Yet its potential value should not be underestimated. In the present period of experimentation with new international organizations, it has often been shown that a relatively simple organization which seeks its effect on members through the process of consultation is frequently more useful than a more rigid institution.

There are three levels on which the value of the OECD will be tested. There is, first, the contribution which it can make to preventing a breakdown in the relationships within Europe. Second, there is the whole area of relationships between Western Europe and North America. Finally, there is the question of the relationships between the North Atlantic nations and the underdeveloped countries of Asia, Africa and Latin America.

There is a possibility that the OECD will become an important arena for negotiations between the EEC and the EFTA. The OECD would provide a more intimate setting for such negotiations than the General Agreement on Tariffs and Trade with its much wider membership. On the other hand, there are many nations outside the prospective OECD which feel that they have a vital interest in the nature of any settlement reached between the two European groups. Those nations would be concerned about a settlement reached within the OECD in which they have no voice.

The change in the relationship between the U.S. and the nations of Western Europe which the OECD formalizes is of the utmost significance. During the period of the OEEC the U.S. was a close collaborator, but still always something of an outsider. With the advent of the OECD the U.S. and Canada will become full members. This reflects the restoration of the economic strength of Western Europe and the greater need of the U.S. for close economic cooperation with, not to say assistance from, these nations. It also demonstrates the determination of the governments of these countries to give an institutional form to the community of interest among them.

The role the OECD will play in promoting assistance to the underdeveloped countries is open to considerable speculation. It is by no means the only intergovernmental organization concerned with this problem. The International Bank, the International Monetary Fund, the Colombo Plan and the United Nations, to mention only the most prominent, are all involved with aiding economic development and they have all attempted to coordinate development assistance.

In the end, therefore, all that can be said with certainty about the prospects for the OECD is that it is an instrument created by a group of generally like-minded nations to deal with problems of international economic cooperation involving themselves and their relations with other nations. How useful it will be will depend on the evolution of events and the will of the members.

The one great hazard is that the people of the uncommitted underdeveloped nations will misinterpret this new organization as a combination of the rich nations to protect their own interests against those of the poor nations. The members of the OECD can only escape this danger if they demonstrate that this organization is not simply a self-protection society for the rich but is instead truly intended to help achieve the goals set forth in the convention. ■

Story of an innovation

BRIGHTER PROSPECTS FOR COLOR TV

by FREDRIC STUART

■ THE SALE of color television sets to the public began in 1954. But color receivers are still relatively rare; by the end of 1960 an estimated 600,000 were in use in American households. Has consumer acceptance of color been unexpectedly slow? Why have only slightly more than one per cent of the 50 million television families in this country bought color sets? And what are the future prospects for sales of color television receivers?

The last question is the easiest to answer. If we look into the *distant* future, let us say 20 years from now, it seems safe to predict that the color receiver will have become standard equipment in American homes. This appears inevitable simply because the color set duplicates all the services of its monochrome predecessor, and offers additional ones. Entertainment in color is superior to entertainment in black and white, for the same reason that motion pictures with sound tracks are preferable to silent films: a dimension has been added, and nothing has been subtracted.

Yet, in spite of the general feeling that the color television receiver is a technological innovation inherently superior to the monochrome set, thus far color has not captured a larger share of the TV market. During the past two years approximately two per cent of the sets purchased have been color sets. The total of 600,000 color sets sold in six years compares with more than 15 million black and white receivers purchased between 1946 and 1952.

After six years of monochrome sales, 34 per cent of American households had television receivers, while in six years color sets have been sold to only one per cent of households. We must remember, however, that the acquisition rate for black and white television sets was an all-time record for innovations of any type. Between 1922 and 1928, 27 per cent of American households acquired radio sets. Automobiles, on the other hand, were acquired at a *slower* rate than color television sets. Six years of sales (1900-06) produced car ownership in only .6 per cent of American households.

Thus, radio and monochrome television were fast-selling, and automobiles and color television slow-selling, innovations. What common characteristic links the members of each group? What differences account for the wide variation in rates of saturation of the potential market?

Working definition

Automobiles, radio and monochrome television are certainly similar in *ultimate* impact on the market; each was eventually acquired by a substantial majority of households. Today 76 per cent of American families own one or more cars, 88 per cent own one or more television sets, and 96 per cent own one or more radios. Moreover, color television, I believe, will ultimately achieve comparable penetration. A characteristic shared by all four products is that each provides services not available through the use of prior products for which it is substituted.

The last statement amounts to a working definition of the true "innovation." The automobile does things which the horse and buggy cannot, the radio delivers entertainment not available on the "victrola," the television set adds the visual dimension to radio, and the color television set adds realism and beauty that the black and white set cannot provide.

Prediction of a high, long-run saturation level on this basis would have been, or is, possible for the refrigerator, the gas and the electric range, the vacuum cleaner, the safety razor, the automatic clothes washer, the room air conditioner, the sewing machine, the toaster and the electric dishwasher; they provide services superior to those of the icebox, the wood-burning stove, the broom, the straight razor, the washboard, the electric fan, needle and thread, the oven and "elbow grease." However, this long-run confidence in an innovation's success does not throw light on the *rate* at which the new product will be substituted for the old.

The crux of the problem is that every innovation operates as a *substitute* for one or more existing products. Regardless of how revolutionary the new apparatus may be, the services which it performs have previously been performed in some degree by other means. This statement depends on a reasonably broad definition of the services rendered. Thus, prior to television, no existing product could reproduce broadcast images in the home. But the services of the television set are *entertainment,* and people were entertained in pretelevision times. If we narrow the definition to *home* entertainment services, the radio becomes the principal pretelevision source, and therefore the major product for which television would be substituted.

What aspects of the relationship between a new product and an existing one are significant? One is the degree of substitutability—that is, the extent of similarity between the innovation's services and the existing product's services. Let us use the term "substitution margin" to designate the performance gap between an innovation and its closest substitute. A large substitution margin

indicates uniqueness of the innovation.

While the extent of the margin is, in part, a matter of subjective appraisal and will differ from one consumer to another, there are usually some objective measurements which are extremely useful for understanding *changes* in degree of substitutability. For example, the substitution margin between automobiles and horse-drawn vehicles grew as automobile speeds increased; the substitution margin between television and radio became greater as daily telecasting hours increased.

The second important aspect of the relationship between a new product and an existing one is the ratio of the price of the innovation to the price of the product which it displaces.

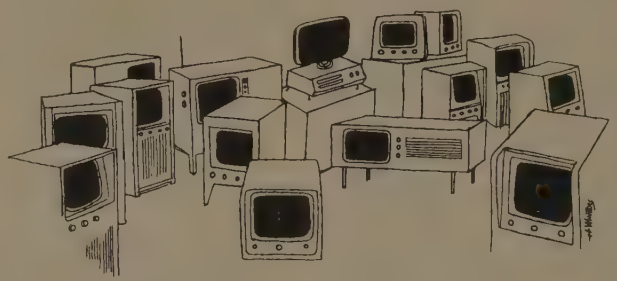
The two factors, price ratio and substitution margin, are completely independent, but they operate together. Their effect on total sales of the innovation (on the rate of public acceptance) can be understood only when each has been considered. An innovation priced far above older products may achieve a high saturation rate if it is far superior to them (if the substitution margin is large). Likewise, an innovation whose relative price is low may be adopted slowly because its margin of superiority over established products is small.

Early auto sales

In this framework, the slow early sales of automobiles are easily understood. In 1895 the car that won an automobile race in Chicago covered the 50-mile course at an average speed of five miles per hour! Furthermore, four of the seven automobiles which started broke down before the finish line. Since the horse-drawn carriage and the railroad were both faster and more reliable than the automobile (and remained so for many years), the automobile as a marketable innovation got a poor score on substitution margin at that time.

On the price side, we may take the first Oldsmobile, marketed in 1900 for $1,250, as representative of the early years. By 1907 cars were available for as little as $650 (though most still cost more than $1,000). But in 1900 a low-priced buggy complete with horse cost about $110, and the price in 1907 was about $150.

In contrast, the radio provided very different home entertainment from that of its principal rival, the "victrola." The phonograph's entertainment was largely confined to music and was repetitious. Moreover, it could not deliver the news. Furthermore, in 1922, the first year of extensive broadcasting, a radio could be purchased for as little as $35, and most sold for from $30 to $150. At this time, "victrola" prices ranged from $25 to over $1,000 for fine-furniture models. A combination of uniqueness and low relative price explains the rapid sales of radios.



Monochrome television enjoyed very much the same advantages over radio after 1946, but the situation in color television is markedly different. First, the black and white receiver is an excellent substitute, since all shows transmitted in color may be seen on either type of set. Picture the effect on early radio sales if the "victrola" had been capable of receiving all radio broadcasts, but eliminated half the treble range of sound. Secondly, the color television set is presently three to five times as expensive as the black and white set.

The combination of these factors explains the "low" rate of acquisition, but it also illustrates the error or using the term in any absolute sense. Though the rate is lower than that of some innovations—for instance, radio and monochrome television—it is not *unexpectedly* low, in view of the market conditions described. And, finally, it is a higher rate than that of some innovations introduced under comparable conditions—for instance, the automobile, electric dishwasher, room air conditioner, private plane, automatic garbage disposal and electric blanket.

Since the rate of acceptance of any innovation depends on both substitution margin and price ratio, any explanation of the rate of color sales which emphasizes one and excludes the other is at fault. For example, it might be said that it is difficult to sell color television because it represents a minor modification on the black and white receiver, that the viewer's enjoyment of programs is only slightly enhanced by the addition of color. But color certainly represents an addition of *something;* therefore, equal prices for both types of receiver would surely swing the public to color.

By the same token, the statement that color television is difficult to sell because it is high-priced is incomplete without the addition of "compared to the black and white receiver." It also overlooks the fact that the high relative price would not be a barrier to sales if the substitution margin between the two were greater. The price of an electric razor is approximately 20 times that of a safety razor, but it has captured 40 per cent of the market because of the large differences between its services and those of its leading rival.

Current and future status

Let us now consider the current and future status of the two important aspects of the color-monochrome relationship—first the price ratio, and then the substitution margin.

The lowest-priced color set (RCA) lists for $495, though discount stores have offered it for as low as $400, while black and white sets of comparable screen size cost between $140 and $280. The color set is available only with 21-inch screen; 14-inch

monochrome sets are sold for as little as $100.

Why is the price of a color television set higher than that of a monochrome one? The picture tube is more complicated, and is about three times as costly as a black and white tube. Other additional costs come from considerable extra circuit wiring and twice as many vacuum tubes in the color set.

Have high color prices been the result of a scarcity of manufacturing firms? Between 1954 and 1959 only RCA continuously made color receivers, though some companies entered the field for brief periods. In 1959 Admiral and Packard-Bell began continuous production, and in 1960 they were joined by Magnavox and Emerson. The high price of the color set was not the result of monopoly. This became clear when the newer firms failed to undercut the RCA price. The lowest-priced Admiral color set sells for $600 and the Packard-Bell for $800. Furthermore, 1959 was the first year in which RCA made any profits on color receivers.

Industry spokesmen maintain that there is little prospect for reduced color set prices in the near future. Between 1954 and 1956 the RCA color price came down from $1,000 plus $150 for a one-year service contract, to $495 plus $70; at the same time screen size was increased from 15 to 21 inches. Since then prices have remained at this level, though retail dealers have occasionally offered virtual reductions through liberal trade-in allowances on black and white sets.

Small change

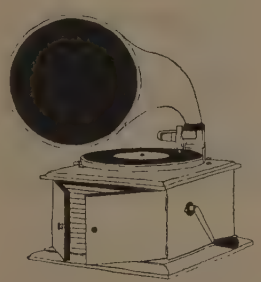
Economies of large-scale production do not promise significant price reductions. RCA has calculated that doubling its present capacity may result in a decline of from $50 to $75 in unit cost, a small change relative to the current color-monochrome difference.

It appears likely, then, that the ratio of color set price to black and white price will not change significantly in the next few years. In that case, increased sales depend on changes in the substitution margin between color and monochrome receivers.

We have mentioned that the color set faces competition from a closer equivalent than most innovations encounter. For shows transmitted in black and white, the monochrome receiver is a *perfect* substitute for the color receiver. And for shows transmitted in color, the monochrome receiver is a very good substitute for the color receiver; since the programs may be viewed on both types of set. Other differences between the two receivers have been mentioned as favoring the black and white substitute: the monochrome receiver may have attained a higher degree of reliability than the color set—and the color receiver is not available in portable models.

What developments may be expected to increase the substitution margin between color and monochrome receivers? First, and most important, increases in the proportion of programs transmitted in color. Second, improvements in the technical performance of the color receiver and reductions in its size.

Let us examine the second set



first. A significant reduction in the size of the color receiver has not been promised by any of the producers. But color sales can increase tremendously by capturing a larger share of the present black and white *console* market, until further technical development permits encroachment on the portable market.

While color reception difficulties were undoubtedly an important element during color's first three or four years, most of the technical problems have now been solved. The decline of the annual service contract price from $150 to $70 has brought the color contract to within $10 of a black and white contract, an indication of comparable reliability.

In a 1959 consumer survey, 85 per cent of color set owners described the set as "good to excellent." This general attitude is confirmed by a Pulse survey in 1960, in which respondents who did *not* own color sets were asked their reasons for not buying. Only 10 per cent of those who had viewed color believed that color television was technically imperfect. However, 36 per cent of those who had *not* viewed color programs thought color TV had not been perfected, indicating possible future sales gains from the education of consumers as to the color receiver's present quality of performance.

Available programing

How much color programing is currently available? Of the three television networks, only NBC offers regularly scheduled color shows. Last year NBC transmitted over 1,000 hours in color, while CBS transmitted about six hours and ABC used no color at all. One hundred and seventy-nine television stations affiliated with NBC are equipped to rebroadcast the network's color programs. Thirty-one of these stations also have regularly scheduled color programs *locally* originated, as do 12 non-NBC stations. In all, then, 191 of the country's 520 television stations offer regularly scheduled color programs. The opportunity to view color, however, is better than these figures indicate, since more than 96 per cent of U.S. television homes are within broadcast range of these 191 stations.

Increases in the amount of color programing may be expected. First, NBC has steadily increased its hours of color telecasting and presumably will continue to add color programs. Its current offerings amount to more than 32 hours per week in color, of 90.5 total hours of broadcasting. The number of NBC stations equipped to carry color shows has steadily increased. Of the 29 NBC stations not yet equipped, six have definite plans for conversion this year.

Second, the other networks will eventually get into regular color operations and greatly augment color schedules. One hundred and fifty-two CBS affiliates and 132 ABC affiliates are currently equipped to rebroadcast network color, and 20 more CBS and ABC stations have current plans for acquiring equipment. (Some stations are affiliated

with more than one network; the unduplicated total number of stations equipped to rebroadcast network color is 354.)

The reluctance of CBS and ABC to enter the color field thus far is attributable to low advertiser demand for color, a result of the small number of color sets in use. It is no secret that NBC, a subsidiary of RCA, has absorbed some of the costs of color programing. Advertisers have generally been charged for only the additional cost of color commercials (five to 30 per cent above black and white commercials), while the network has defrayed extra *program* expenses. Some advertisers have avoided *any* additional costs by placing black and white commercials in color programs.

Greater impact

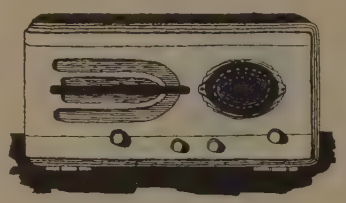
NBC promotion of color programing is not designed, however, merely as an effort to support its parent company's sales of color receivers. There is little doubt that networks and stations will be able to sell color programing to advertisers at a profit as soon as a substantial number of color receivers are in use. Numerous surveys have shown that the color viewer has a greater tendency to turn on the set, to watch the commercials, to retain commercial information and to be favorably impressed with products advertised in color.

Since current advertisers may expect greater impact from color programing, and new advertisers will be attracted to television by the opportunity for color display, the full costs of color production will ultimately be shifted from networks and stations. A recent technological development, the RCA 4401 Image Orthicon tube, significantly reduced the additional cost of color-casting by cutting lighting requirements to one-tenth of their previous level. Very little lighting (or air conditioning, previously a large expense) beyond that used for black and white production is now necessary. Also promising is the fact that the cost of magnetic tape, which offers better picture quality than film, is the same for color as for black and white production.

If CBS and ABC are waiting for increased advertisers' demand, and advertisers are waiting for increased color set sales, and set sales depend on the amount of color programing, are we trapped in the classic chicken-egg dilemma? Not necessarily, since increases in color programing may be expected from the other two sources (NBC and local stations). The number of sets in use thus generated will be large enough to attract advertisers and, therefore, the other two networks, at an early stage in the "saturation" process. Their entrance will, in turn, further stimulate color set sales.

Some advertisers have already shown sufficient interest in color to concentrate their television expenditures in color programing (and therefore to shift programs to NBC). As early as 1959 the automobile manufacturers were giving NBC 70 per cent of their television business, and using color on 86 per cent of their NBC programs.

The third source of increased color programing is the local station schedule. Additions may be expected from



the 43 stations which telecast local color shows in 1960, as well as from 57 other stations which are now equipped to originate local live or filmed color. The light-reducing tube mentioned above has facilitated outdoor color-casting, and three stations in 1960 found local sports in color (particularly night baseball) a valuable addition to their schedules. Over 300 Hollywood feature films purchased by television stations are printed in color; some stations have begun to televise them in color (New York's "Million Dollar Movie" is an example). Local stations have also broadcast in color news, weather, interviews, women's home features and musical variety programs.

Having discussed the major determinants of color set sales, we may now ask: What does the near future look like? RCA, which still sells about 95 per cent of color sets in the United States, feels that the "big breakthrough" is imminent, perhaps already upon us. This feeling is based on marked acceleration in color sales over the last two years. In 1960 color set sales increased by 30 per cent, while black and white sales climbed by only three per cent. Sales of more than 200,000 color receivers are expected in 1961.

Breakthrough?

Evidence from consumer surveys lends support to the idea that 1961 and 1962 could be the breakthrough years. A 1960 survey showed that color television stands high among consumer intentions, emerging third on a list of home appliances which would be purchased with a hypothetical $1,000 windfall—behind hi-fi equipment and the air conditioner, but ahead of the washing machine, refrigerator and dishwashing machine.

The same survey corroborated our hypothesis that the major deterrent to sales is the combination of narrow substitution margin and high price ratio between color and monochrome receivers. When asked to state their reasons for not purchasing color TV, 50 per cent listed the high price, while 34 per cent referred to the relative paucity of color programing and/or satisfaction with their present black and white sets.

How far down must prices come? When consumers were asked how much they would be willing to spend for a color set, their answers indicated that unit sales might be doubled by a price reduction to $425, tripled by a reduction to $350 or quadrupled by a price of $300.

If price remains constant, what can be achieved through increased color programing? In Cincinnati, the introduction of locally originated color programing was followed by a tripling of RCA color set sales. Similar sales effects have been noted in many of the 43 markets in which local color programing has begun.

To sum up, the outlook is that color television sales will grow at increasing rates over the next few years as new color programing widens the color-monochrome substitution margin. Increases will become explosive when and if this movement can be abetted by technical advances which make possible significant price reductions. ■

CHALLENGE NOTES

Sidelights on the passing economic scene

FOOD FOR THE FACE—A professor of pharmacy at Purdue University and two assistants have developed a complexion lotion made of peaches and cream, and an antichapping cream prepared mainly from tapioca. They have also prepared a liquid make-up composed mainly of chocolate syrup and mashed potatoes.

► *To make women more appetizing?*

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COMFORT FOR COWS—The latest news from the barn is that the old straw bed ain't what it used to be. The modern cow, it seems, reclines on a foam

mattress. Not only do "kowlays" mean increased cleanliness, but the cushioned animals also increase their milk yields.

• • •

ELECTRONIC ERROR—A computer made a mistake when adding up the taxable value of the property in Kings County, Washington, which includes Seattle. The total was $28 million too high, and the error was not discovered until after work on the 1961 budget was far advanced. As a result, estimated expenditures had to be reduced by $1.8 million. Among the cuts contemplated was $150,000 for new computers.

• • •

THREE-COLOR CONSPICUOUS CONSUMPTION—A TV dealer in Upper Darby, Pa., states that color TV is replacing the Cadillac as a status symbol in his area. "Color TV," he says, "gives the executive something to invite his friends in to see." To help boost sales, the dealer makes sure that the neighbors of a purchaser know that the status symbol is in place inside the house. The gimmick: he installs a three-color antenna for each color TV set he sells.

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POLICIES AND POLYSYLLABLES—A vice president of the Continental Assurance Co. of Chicago reported recently that the company's life insurance policies had been completely rewritten and their wording simplified. The new policies are much easier to read than the old ones. Said the vice president in charge: "We can almost understand them ourselves."

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A TALE OF TWO PRESIDENTS—When he vetoed an appropriation giving $25,000 worth of seed corn to Texas farmers hit by a drought, President Cleveland stated that he was doing so "to teach the lesson that while the people support the government, the government does not support the people." In the 1962 budget that President Eisenhower sent to Congress, the cost of "stabilization of farm prices and farm income" was put at more than $3 billion.

► *Times—and values—change.*

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OFFICE FEATHERBEDDING—*Modern Office Procedures* has published a study of featherbedding in offices. Almost every company interviewed felt that office featherbedding is standard practice. One vice president estimated that the average office is one-quarter to one-third overstaffed. A management consultant says that annual losses from office featherbedding run into hundreds of millions of dollars every year.

► *A new frontier for Labor Secretary Goldberg?*

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EMBARGO—Postage stamps of Communist China which may carry a portrait of Mao Tse-tung cannot be imported into Taiwan.

► *A question of face?*

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CREDIT DAZE—According to *Changing Times,* a recent survey of 183 department stores and specialty shops revealed that 60 of them offer credit plans to teen-agers and 23 more are

thinking about doing so. Accounts are usually held to $30 to $50 and may have such glamorous titles as Starlet Circle Charge Account or 14-21 Club. Some retailers offer youngsters straight installment credit. One California jeweler, for example, advertises "Going Steady" rings at $12.95 for nothing down, payments of 50 cents a week.

Reactions vary. One outraged New York banker snapped that giving teenagers the right to buy on the cuff is "like teaching the young to use narcotics." But another said, "We are in a credit economy now and the sooner these kids know how to handle credit the better off they'll be."

► *Who else will be better off?*

• • •

DEFINITELY YES AND NO—Dr. Joseph S. Davis, writing on "food for peace" in a study published by the Food Research Institute, Stanford University, says, "In the past and present, surely, wars and threats of war have not come from the poor and hungry nations, but from those much better off, under ambitious, ruthless leaders. Subject to some reservations about the miscalled People's Republic of China, I expect this to be true in the future."

► *A largish reservation.*

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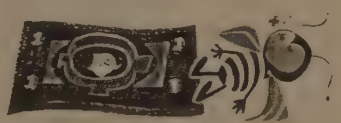
MONETARY INVENTION—Germ-free bank notes have been introduced in France. The Bank of France says that before they are issued the notes are



treated with a disinfectant "rendering inoffensive all the microbes and bacteria with which they could become infested in the course of their circulation."

► *How about a bank note free of inflation?*

• • •

SMALL ARMS BAN—Jamaica has forbidden the importation of switchblade knives, *Foreign Commerce Weekly* reports.

► *At last, one country has done something about disarmament.*

• • •

LIQUID ASSETS—According to the Associated Press, stocks of whiskey in Scotland have mounted to a record 300 million gallons—or about 60 gallons for every man, woman and child in that country.

► *A case of export, or else.*

The Public View of the Dollar Crisis

by HENRY C. WALLICH

Seventh in a series of articles dealing with the lag between the way we think our economy behaves and the way it actually does behave.

■ THREE GROUPS of Americans seem to have been the victims of a cultural lag in balance of payments thinking. First, those unsuspecting citizens—close to 182 million of them—who had no particular reason to think about the balance of payments, and didn't. Second, a distinguished company of businessmen, labor leaders and economists who might have thought about it, but also didn't. Third, a very small elite of cognoscenti who did think and arrived at the wrong conclusions.

They all have in common a failure to observe, at a crucial moment in economic history, that we had moved from a world dollar shortage to one of dollar glut. From this came a lag in the adjustment of private and public attitudes. Businessmen and labor leaders continued to push up prices and wages when foreign competitors were already breathing down their necks. Politicians and bureaucrats still talked about tax subsidies for American business investment in Europe when European officials were already becoming apologetic about the embarrassing magnitude of their countries' gold and dollar reserves.

As cultural lags go, however, the balance of payments lag has been a short one. It does not compare, for instance, with the lag experienced by university lecturers, who today still practice a method of communication made largely obsolete by the invention of the printing press. Most of the victims of the balance of payments lag have caught up.

Here and there one still encounters a few unreconstructed holdouts. And, to be sure, so long as history is in the making, there is always the possibility that they may be proved right. On the United States balance of payments deficit, history seems almost made, but perhaps not quite. Meanwhile, no one can be quite certain who is lagging behind whom.

Great efforts are being made, moreover, to end the payments deficit. Should they—unexpectedly—be successful enough to put the United States back into heavy international surplus, someone will surely claim that there was no reason to become excited in the first place. The discussion proceeds subject to that hedge.

At the risk of having the tables turned on me, I will record my own judgment that there has been every reason to be concerned, all the more so because of the prevailing cultural lag carried over from the early postwar years. The doctrine of a structural dollar shortage developed out of conditions prevailing after World War II. In the early postwar years the United States balance of payments had a strong tendency toward a surplus and most other countries experienced a dollar shortage. The world's demand for United States products at that time clearly exceeded the American demand for imports. For the moment the world was unable to earn enough dollars to pay for all it wanted to buy from us.

Some economists sought after deeper causes than seemed to be provided by the consequences of the war. These deeper causes naturally could not be expected to cease operating overnight. Thus, the theory of the permanent dollar shortage was born.

It never achieved general acceptance by economists, because it seemed to deny the tendency, deeply believed in by many, for supply and demand in the end to come into balance, through price movements or otherwise. But it had a respectable sponsorship, an impressive historical foundation and some rather convincing-looking arguments to support it.

Historically, it could be shown that even during the interwar period, and perhaps still earlier, productivity gains in Europe had been slower than in the United States. It was tempting to attribute this to the unique benefits of our large market, our intensive research and other presumably permanent advantages enjoyed by the United States. From these differential rates of productivity gains, a permanent competitive superiority of the United States could be deduced.

Another line of reasoning, also well rooted in history, stressed the self-sufficiency of our economy and the attractiveness to the world of our ever-improving consumer and capital goods. Galbraith was still some years off. So was the tooling up by European producers for manufacturing our gadgets in cheaper and better models. Meanwhile, it looked as if foreign producers would never break into the American market. It was widely feared, moreover, that if they did, protectionist pressures would see to it that they were put in their proper place—outside a raised American tariff wall.

A further consideration was the alleged susceptibility of the American economy to recession or stagnation. An ending of the postwar boom, the pessimists thought, would reveal these propensities. And when the United States sneezed, it was said, Europe caught pneumonia. A recession-prone United States, therefore, could be expected to keep Europe in more or less permanent financial difficulties.

As early as 1949 the intellectual foundation of the permanent dollar shortage doctrine developed some fis-

sures that might have warned its proponents. In that year most of the other industrial countries devalued their currencies relative to the dollar. If this did not make them much more competitive immediately, it at least laid the foundations for future competitiveness. Then, beginning in 1950, the United States balance of payments actually began to go into deficit, and remained so every year during the 1950s except 1957.

Initially, this did not have to be viewed as a threat to the dollar or a refutation of the dollar shortage theory. Import restrictions abroad remained tight; without them foreign countries at first would probably have been flooded with American imports. These countries were achieving their meager surpluses, moreover, largely by grace of American economic aid and military expenditures. Together these averaged about $4 billion a year during the early Fifties, much more than the United States payments deficit. We had not yet resigned ourselves to thinking of these outlays as permanent. It was relevant to ask what would happen when they came to an end.

Turning point

The turning point in our affairs was reached around the middle of the 1950s. In 1954 a study conducted by the government showed that even in the event of a prolonged recession in the United States, the programed rising levels of foreign aid and military expenditure would prevent the recurrence of the dollar shortage in the foreseeable future. About that time, or not much later, it became increasingly apparent that an end of these outlays was not in sight. That was the moment when the shoe shifted to the other foot and concern about an eventual world dollar glut, instead of a world dollar shortage, became appropriate. It is from this period that I would date the cultural lag on the part of those who remained impervious to this concern.

At that time, however, the issue was far from urgent. The small deficits of the kind that had become habitual during the early Fifties were entirely tolerable for the United States. They produced no major withdrawals of gold; foreign countries merely accumulated dollars. The United States gold stock far exceeded these holdings. And the deficits served a useful purpose in increasing international liquidity.

In 1957 economic history laid a trap. The Suez crisis, combined with a strong boom in Europe, raised United States exports dramatically. Suddenly, the United States balance of payments began to show a surplus again. On the brink of what, so far,

has been three years of large deficits totaling $11 billion, a combination of fortuitous events produced a misleading signal. Talk of the dollar shortage revived.

Then came the debacle. In 1958 there was a deficit of $3.5 billion, reflecting mainly the post-Suez drop in exports. In 1959 the deficit was $3.8 billion, this time associated mainly with a sharp rise in imports. The year 1960 brought a third deficit, due in good part, however, to a short-term capital outflow. (A deficit is a deficit, but a less serious deficit if produced by short-term capital, because the money may come back.) In the face of these events it took a solidly embedded cultural lag to disregard the balance of payments and to persist in policies and actions that would perpetuate the deficit.

With the large number of people in the United States who had never heard of the matter, there is no need to pick an argument. In Europe and Japan, businessmen, economists and working men are all balance-of-payments-conscious. They have had "export or die" ringing in their ears for decades. In the United States there has been no opportunity and no reason for this kind of broadly based awareness.

But I would single out as victims of a serious cultural lag, first of all, those in responsible private positions who have been unconcerned about inflation and its consequences. Ever since the war we have engaged in rather free-wheeling wage and price policies on the part of labor and business. These have to some extent nullified and overriden the efforts of government to halt inflation. Business and labor have, in effect, made true a prediction published by Lord Keynes in 1946. He anticipated then that the high level of costs in the United States would put an end to the dollar shortage. It took about a decade, but with other factors contributing, it finally happened.

Until quite late in the game this unconcern received aid and comfort from the line of economic analysis that regards inflation as the necessary price to be paid for economic growth. Regardless of the merits or demerits of this view, to which I do not subscribe, it should have been obvious that a single country cannot pursue such a policy if its trade competitors keep their prices stable or more nearly stable.

As the payments deficit deepened after 1957 it did begin to play a role in wage and price policies. The automobile and steel industries, which have shown some of the sharpest price increases, have also been among those most exposed to foreign competition in their domestic as well as their foreign markets. That the steel industry has held the price line since the 1959 strike, and that the auto industry has so strongly pushed compact cars, is in part no doubt traceable to foreign competition.

Small cogs

It has been said that individual businesses, being only small cogs in the industrial machine, can do little to influence a major inflationary trend. But the experience of the last few years shows that as soon as foreign competition really causes loss of sales and jobs, price and wage policies do react. An earlier response, impeded apparently by misconceptions about our competitive superiority, would have better protected our position.

During the steel strike of 1959 the issue played a role in the press battles that the industry and the union

waged by means of advertisements. The companies said that large wage increases followed by price increases would bring trouble from foreign competition. The union, not unreasonably, was suspicious of the industry's sudden discovery of this fact after many years of rising steel prices. But in rejecting it as nothing but a new stick with which to beat labor, the union was scarcely on firm ground.

Questionable conclusions

If the cultural lag on the part of some business and labor leaders has taken the form mainly of failure to consider the balance of payments at all, among some economists it seems to have manifested itself in the form of questionable conclusions arrived at upon due consideration. I say this with the realization that the end is not yet and that those who seem to have lagged may conceivably prove to have led.

In 1957 and shortly after, there appeared several books dealing with the dollar shortage. Of these seven works only one took a position against it (Robert Triffin's *Europe and the Money Muddle*). Of the other six, one even discovered a new cause of the dollar shortage.

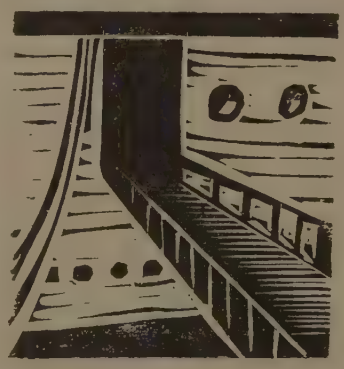
Within the government the range of views and the degree of cultural lag was probably smaller than outside. As mentioned above, an interagency study as early as 1954 reached the conclusion that no dollar shortage was in prospect.

However, after the war, government policy had been directed toward promoting United States imports and private capital export, wherever appropriate. Aside from the intrinsic benefits to trade and investment, both helped to provide foreign countries with dollars. The need for tax-financed foreign aid was correspondingly diminished.

During the early and middle 1950s these efforts to get the private dollar into foreign hands were going full tilt. Reciprocal tariff bargaining, foreign investment guarantees, promotion of tourism abroad, duty-free tourist purchases, information on how to sell to the United States, all these endeavors had the same point in mind. Government procurement, provisioning of troops abroad and purchases by the post exchanges were oriented accordingly. It took time until the last purchasing officer understood why he should not buy in the United States, but eventually a high degree of coordination was reached. This formidable machinery would have to be thrown into reverse if the deficit turned out to be serious. Here was an occasion for a cultural lag.

In the course of the last two or three years, much of this machinery has, in fact, been reversed, as far as this could be done administratively. In trade negotiations a stronger emphasis was placed on concessions to the United States and especially on the removal abroad of quantitative and discriminatory trade controls that had nullified concessions granted to us in earlier bargaining. Export promotion techniques were dusted off. Procurement was reoriented toward the United States.

But the older habits were deep rooted. This is illustrated by what happened to a senior official of a government department that had been particularly active in pushing for



correction of these predeficit practices. While the dignitary was making an inspection trip on a United States naval vessel, the captain took him to the ship's store to see the supply of foreign-made watches, cameras, etc. Little realizing the sentiments he was arousing in his guest, the captain apologized for the meagerness of his supplies. "But I promise you," he added, "the next foreign port we come to, we'll put in a good supply."

An early instance of cultural lag was the Boggs bill for the promotion of foreign investment, on which hearings were held in the fall of 1958. At that time, enthusiasm for this purpose was still strong in many quarters. In others, however, substantial doubts had arisen whether, in the light of the emerging payments deficit, this legislation was still wise. The testimony of the Departments of State and Commerce and of the Treasury reflected these shadings of official thought. Eventually the proposal was whittled down so as to eliminate some of the tax benefits offered and was made applicable to less developed countries only. In this form it won grudging support from the Treasury in further testimony. It was not passed by the Congress, however, despite strong support from large corporations.

Public response

Still another example of the same lag was the public response to the effort to persuade Germany to make a contribution toward development assistance and the common defense, consistent with her greatly increased economic strength. This move gained real momentum in the fall of 1960. It built up to the much criticized visit of Secretary Anderson to Bonn. Those who said that the United States should not demean itself to make such proposals to a foreign country were, in my view, demonstrating a cultural lag.

Although our recent balance of payments experience seems to exemplify admirably many of the features of a cultural lag, there is perhaps some question as to how effectively the term can be used to describe attitudes toward changing economic situations. The concept is that of a situation in which the superstructure of social relations supposedly no longer fits the economic realities that have evolved. Obviously, that is a long-term proposition probably involving decades rather than years.

With regard to short-run changes, the danger of jumping from hasty premises to premature conclusions is multiplied. In *The Affluent Society*, J. Kenneth Galbraith creates a social character, whom he calls the conventional wisdom, who seems to be the incarnation of the cultural lag. Now it may well be true that the conventional wisdom is behind the times on many issues. It does not follow that its critics are ahead—they

may be off in the wrong direction. The number of bright new ideas is large. The conventional wisdom, in at first rejecting them all, probably is right nine times out of 10.

If the concept of the cultural lag is nevertheless to be applied to short-run economic situations, the principal justification for charging that a lag exists must be sought in the tendency of a market system to return to equilibrium. In economies, a maladjustment rarely goes on indefinitely without correction. Those who claimed that some particular maladjustment such as the dollar shortage would go on indefinitely exposed themselves to the danger of a cultural lag.

Adherents of the dollar shortage school were, of course, aware of these pitfalls. They were at pains to demonstrate that the self-correcting forces operating on the balance of payments were weak, that their function was inhibited by public and private action of various sorts and that in this particular case a correction was not to be expected. Their arguments did not lack persuasiveness. But postwar balance of payments history drives home a point which was not sufficiently within their calculations —the role of economic policy.

A good part of the policies of Western governments since the war was bent toward overcoming the dollar shortage. Where choices had to be made between domestic full employment policies and international balance, especially in Europe, enough priority was given to the latter to assure steady progress. The self-correcting forces of the market system, weak or strong, thus had the support of deliberate policy action. Together they seem to have turned belief in a permanent dollar shortage into a cultural lag.

For the time being the forces in action seem to have overshot their mark. They have turned the dollar shortage into a glut. But there is no reason for falling into the opposite error of assuming the glut to be permanent. It is entirely possible for the United States to balance its international accounts. Market forces, abroad as well as at home, are working in that direction. Barring unforeseeable emergencies, the future of the dollar will be what we make it. ■

Imaginary musings of a Marxist

Is History on the Side of the West?

by SIDNEY C. SUFRIN

■ LET US IMAGINE that a social scientist in the Soviet Union is reflecting on the world situation. His name, let us say, is Mikhail Mirolov. We will assume that he is a Marxist, but that he is sophisticated to the point of reading foreign newspapers and technical journals. He is not merely an academic person, but an adviser to an important state bureau which prides itself on following a philosophical or theoretical line. What conclusions is Mirolov likely to draw?

As a Marxist, he believes in the doctrine of dialectical materialism. This doctrine has not won much favor outside of Communist lands and probably has its silent critics within that area; nevertheless, it is potent among Soviet social scientists.

As he considers the world about him, Mirolov sinks into a reverie. "Is there an ultimate goal of the Soviet system?" he asks himself. "Or are there merely immediate goals—a gain achieved here, a victory sought there?" He feels that the vague picture of socialism is not very meaningful as an ultimate goal because it is not, in the Western sense, operational; the specific processes, institutions and modes of behavior are neither defined nor given a definite purpose. He recalls the expression of Marx, who said that he was not prepared to give the "recipes to the bakeshop of the future."

Mirolov, however, concludes that there is one clear goal of the Soviet Union, and that is to survive. This is, of course, the goal of any society. But the world is constantly changing. Thus, in order to survive, a society must be able to adapt to changing conditions.

Our friend then asks himself whether or not, in this connection, the Soviet Union's frequent change in tactics during recent years has any relevance. Why do the Soviets sometimes represent themselves as friends of the West, sometimes as enemies? Why do they speak of coexistence one day and a few days later of burying the West? Perhaps the Soviet Union is applying Pavlov's methods. By alternately laying the stick of threats on the back of the Western dog and then by feeding him some luscious meat of hope, the Soviets hope to so confuse the poor dog that he will supinely lie down in the corner, defeated and dispirited.

After thinking a good deal about this problem, Mirolov concludes that, whatever the reason for the contradictory behavior of the Soviet government, it is merely a tactical maneuver. He knows that Russia cannot bring about the realization of historical purpose through alternately beating and cajoling the West.

Such a policy does not flow from historical necessity, nor does it lead to some historically necessary goal. For if these tactics should prove successful, they would bring about the *collapse* rather than the *transformation* of the West.

In reaching this conclusion, Mirolov is using the Marxist dialectic. That doctrine teaches that the real, rational world of behavior—of values and actions—contains within itself its own negation, its own necessary opposition. By negation the theory doesn't mean *destruction* of the world; it means rather the *transformation* of the world. For example, the negation of feudalism, in Marxist language, meant the change of

feudal society into capitalistic society. *It did not mean the explosion of the feudal society into nothingness.*

Our friend worries about what Khrushchev meant when he said to the West a short year and a half ago, "We will bury you." Did he really mean "we will bury you" or did he mean that, in the West, new institutions and values will replace the old ones? Mirolov is inclined to accept the latter interpretation. He believes, with Marx and Engels, that history is a process—that only through negation (that is transformation) can a society develop. Thus the Marxist meaning of negation is different from negation in the crude physical sense—the reduction of a body to chaotic nonfunction, as when one steps on a bug.

Transformation

The Soviet Union arose out of the transformation of the Czarist regime's political, social and economic system into the Soviet system. If we call the Czarist regime a type of capitalism, as Mirolov does, we can say the negation of capitalism by the revolution produced the Communist system.

But here a new idea enters into the thinking of our philosophical friend. Did not capitalism itself change drastically after World War I—and more particularly after World War II? Does not the present, then, represent an entirely new era in the West? To be sure, some of the earlier writers in the Marxist tradition have called this the period of the growth of *monopolistic* capitalism. But does this name accurately describe modern capitalism?

The standard of living of the Western world has risen, and continues to rise; social security and education are widespread; the antagonism of working class leaders toward middle class employers has dwindled, so that they now meet as equals. Newtonian physics, which the Marxists always declared was an aspect of bourgeois ideology, has given way to modern physics. Our friend is forced to admit that pre-1914 capitalism has been transformed. But, he reflects proudly, did not that transformation occur *because* of the influence of the Russian Revolution?

Mirolov goes on to consider other changes that have taken place in the modern world. The imperialist system of the West has completely broken down. The British withdrawal from India and the Dutch withdrawal from Indonesia started a process that produced a new pattern in the world, a pattern of growing nationalism and racism, associated with the formation of *new* states. Again he realizes, with a smile, that the existence of the Soviet Union with its ostensible ideal of national freedom was a powerful factor in the negation of the old imperialism and the birth of something new.

His smile fades as his train of thought forces him to consider the development of *Soviet* imperialism—in Czechoslovakia, Hungary, Poland, Albania, Outer Mongolia, East Germany, Rumania and Bulgaria. He wonders whether the extension of the Soviet system to these areas was part of the *dialectical process* toward some happier and more stable situation, or whether this was the mere extension of Soviet political power by military force and threat. Was all this a case of stepping on the bug rather than encouraging functional change?

Ideological hammering

Our troubled friend next considers China. He concludes that the Chinese Communist system, too, grew out of the ideological hammering of the Soviet Union against the old corrupt regime of China. He finds that Communist China came into being because of the negation by the Soviet Union of the feudal, archaic, corrupt system in China. So Mirolov says to himself, "The existence of the Soviet Union, according to my dialectic, certainly has changed the world. It has changed the West, it has changed China and has had a profound effect upon the unstable emerging national states of the old imperialist world."

Then his mind begins to follow a new tack. "How do these countries react on each other and on the Soviet Union?" Being a free-wheeling dialectician—not a staid, orthodox hack of the regime—he sees the new forces in the world as battering at the Soviet system. The Soviet system, he realizes soberly, has become *the next society to be transformed in the onward flow of history.* It is being negated by the very social systems it brought about as it transformed the world.

Mirolov sees that the Western world, with its relatively high standard of living and its clear capacity to secure peace, justice and some tolerable type of social equality, has become an ideological threat to the Soviet Union. For the Soviet Union has a restrictive ideology; it has been clearly successful only in the military and scientific fields; and it has clearly failed in the field of social, artistic and political acceptability. The success of the Soviet Union in transforming the West now undermines the position of the Communist society of the Soviet Union.

Nationalism in a hurry

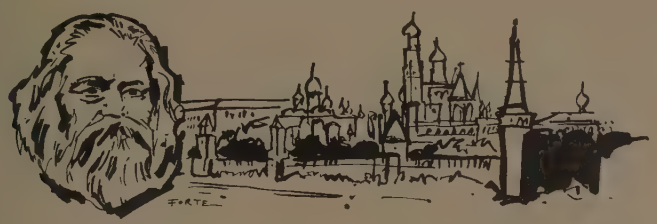
Then Mirolov's thoughts shift again to Red China. China is almost capable of going it alone, and is anxious to do so. It reacts negatively to the restraining hand of the Kremlin. By going it alone, by developing institutions independent of Russian ideologies and policies, it, too, would be a threat to the Soviet Union.

At this point Mirolov thinks of the underdeveloped areas of the world, the emerging new states, and he wonders whether they can be fitted into a Soviet system, or whether they will transform that system. Certainly the new states are extremely nationalistic. They are racist. They are in a hurry. They want goods now, without concern for any special theory of science, philosophy or history. They are looking for handouts *now*, rather than for development. They may bleed the Soviet Union if it follows a policy of widespread aid to underdeveloped areas. They may become enemies of the Soviet Union if they are turned down.

Mirolov remembers the lessons of Nasser vis-à-vis the United States, Great Britain and France; of the former colonial states in Africa vis-à-vis Europe. The antagonism of the Armenians and Georgians to the Soviet Union comes to mind, and again he finds that the very success of the Soviet Union makes its position untenable. "Is the attitude of the Hungarians, the Poles, the Czechs part of the same historical process?" Mirolov asks himself. "Have we

fomented nationalism and racism by talking about universal brotherhood?"

"But," muses our friend, seeing a ray of hope, "the dialectic, when it speaks of negation, doesn't mean total destruction. It means rather the *transformation* of society. Will the Soviet Union," he wonders, "permit itself to bathe in the stream of



history and so be cleansed of its outmoded institutions and become a transformed society? Can this be accomplished without violence?"

This last question sets him thinking about whether or not violence is a necessary concomitant of change. World War I, he reflects, did not change the Western world so much as it marked the end of an era. Russia could not have been changed into the Soviet Union without a violent revolution—or could it have been? That, however, is water over the dam.

But has the Western world undergone a great change without resorting to violence? Surely the Great Depression did much to change the whole political and ideological structure of the West. But the depression wasn't a war; it wasn't the great class conflict which marked the early history of the Soviet Union. Would the depression have had the same results on the thinking and actions of governments if the Soviet Union had not existed as an alternative social system? Probably not, unless some other alternative had existed to force the political and social leaders to accept and initiate change.

Furthermore, in many of the former colonies of the Western powers, change was initiated without organized violence. There was sporadic violence in some instances, but this was not universal, and often was contrived by Communists and others. "So," concludes Mirolov, "change can occur without violence!"

Our philosophical truthseeker then asks himself, "What would the West have to do in order to bring changes to the Soviet Union?" He sees the tremendous role of example and ideology. He notes that if changes were aggressively instituted by the West—changes not only in the U.S. and other Western powers, but also in the former colonial countries—the effect would be virtually to force the Soviet Union into similar competitive changes.

New institutions would have to be created to solve problems which were undreamed of a century, or even a generation, ago. Public health, education, social security, urban rebuilding—the tasks of the world are endless. And people must be permitted to become individuals. Vulgarity, which intrigues only the vulgar, must be replaced by dignity, about which politicians rant, but which only the dignified understand. As each task is undertaken and accomplished outside the Soviet world, the Soviet Union becomes weaker and weaker unless it, too, conforms to the new pattern of behavior.

Power and position

Mirolov admits, then, that aggressive action on the part of the non-Soviet world to stabilize and extend the depths of satisfaction in living would be a challenge that the Soviet Union could not fail to respond to. But many of the leaders of the Soviet Union are older men who live as though they were riding the wave of the future. They fail to see that time has passed them. Their political power is greater than their understanding of their historical position.

The Soviet Union, Mirolov knows, is strong from the military point of view, probably as strong as the West. At any rate, a military standoff has come about. He admits, though, that the great success of the Soviet Union has been in the military and scientific fields, and not in the general social and political fields. Can the Soviet Union hope to survive by engaging in a war, even though by winning the war it would lose touch with the great historical forces? Perhaps.

But that would be merely obeying the law of survival; it would not represent a historical development. *War is no solution because modern war implies destruction—literal destruction—not transformation.* Mirolov comes to the conclusion that if the West can avoid war by remaining militarily strong enough to keep Russia from starting a war, both the West and the Soviet Union will benefit in the short and long run. Alternatively, the Soviet Union could give up war as an instrument of policy and recognize its obligations to history, whose course would then move forward more easily.

Thinking of the vast importance of the Soviet military bureaucracy, Mirolov smiles wanly and tells himself, "We might be able to keep these fellows from starting a war, but it is highly dubious if, in the immediate future, we can sufficiently reduce military expenditures to supply capital and manpower for other activities. But it is worth trying. If the non-Communist world raises the standard of living of all its low-income people and provides a certain amount of social stability, the Soviet Union will have to follow similar policies and so become transformed. The Communist world has not sufficient resources to compete both in the military and nonmilitary fields at the same time."

The big question mark remaining in the mind of our philosophical friend is, "Can the Western powers act with sufficient promptness to destroy the remnants of 19th-century nationalism and racism in the new national states? Can the West act quickly enough to raise the standards of living of the new nations, while safeguarding the freedom and security of its own people? If it can, the world—including the Soviet Union—can be saved; if not, the future is dangerous. Communist China would cease to be a threat if Soviet Russia were transformed. China's turn would be next. Initiative lies in the hands of the West!" ■

Thorkil Kristensen and Associates: The Economic World Balance

abstracted by HOWARD S. PIQUET

Abstracted from *The Economic World Balance*, by Thorkil Kristensen and Associates, published by Munksgaard (Copenhagen) and North-Holland Publishing Co. (Amsterdam) 1960.

Abstracts of significant, original research are prepared by leading scholars for publication in CHALLENGE at frequent intervals. They are presented as a public service in cooperation with the Joint Council on Economic Education.

■ UNDER THE AUSPICES of the Danish Foreign Policy Society, a group of 12 Danish economists, statisticians, historians and representatives of various branches of natural science prepared *The Economic World Balance*. The group was headed by Thorkil Kristensen, the well-known Danish economist and former Finance Minister of Denmark who is at present Secretary-General of the Organization for European Economic Cooperation (OEEC) and who is Secretary-General-designate of the new Organization for Economic Cooperation and Development (OECD). The authors set forth the major changes in the economic world balance that are likely to occur between now and 1980. (The "balance" referred to is not of the balance of payments variety, but rather of production and levels of living between West and East, and between the economically developed and the underdeveloped regions.)

First of all, the authors divide the world into nine major regions: North America, Western Europe, Oceania, the USSR, Eastern Europe, Latin America, the Middle East, Asia and Africa. After showing the balance of economic power in 1955 and discussing economic development, the authors devote a chapter to each of the major factors of economic growth (population and labor force, capital, nature and culture).

This is followed by a technical discussion of theories of economic growth, a presentation of some comparative models and some general conclusions. An extensive appendix gives a detailed picture of each major region of the world with respect to present economic conditions and prospects for future development.

The U.S. dollar, in terms of constant 1955 purchasing power, is used to measure all value magnitudes. Increases in net domestic product are taken as the yardstick of economic growth. The important consideration, of course, is net growth on a *per capita* basis. One advantage in choosing the 1955-80 period is that the women who are likely to give birth during this period are already living. Together with our knowledge regarding fertility, this fact provides a good basis for forecasting changes in population. Furthermore, the technical character of a substantial part of the capital equipment that will contribute to production in the period is known. Attempts to forecast beyond 1980 would involve many more unknowns. It is assumed that there will be no major war before 1980.

Product vs. "welfare"

The authors caution readers against confusing domestic product figures and "welfare." Such figures tell nothing regarding differences of effort in achieving product. Differences in climate and modes of life are not taken into account in compiling per capita national product statistics. Consequently, these figures do not accurately measure the degree of a nation's welfare. Differences between fuel and housing expenditures in different parts of the world illustrate the point. Neither does the national product indicate the degree of happiness prevailing in a country or the extent of cultural achievement.

Nearly 60 per cent of the world's inhabitants live in Asia and Africa, regions that account for only 15 per cent of the world's domestic product. Conversely, nearly 60 per cent of the world's total product is concentrated in North America and Western Europe, regions which account for less than 18 per cent of total world population.

The authors estimate that during the 25-year period between 1955 and 1980 the net domestic product of the entire world will increase between 100 and 175 per cent. The largest percentage increases (maximum estimates) will be in the USSR (282 per cent), Latin America (219 per cent), North America (201 per cent) and Oceania (200 per cent).

On a per capita basis the largest increases will be in the USSR (164 per cent), Eastern Europe (109 per cent), North America (96 per cent) and Western Europe (93 per cent). For the world as a whole the per capita net domestic product will increase from $350 (constant purchasing power) to between $440 and $620.

The population of the earth has increased rapidly in the past two centuries. In the Middle Ages population remained fairly constant, but between 1750 and 1850 it increased 4.6 per cent per decade. Between 1850 and 1900 it increased 7.6 per cent per decade, and from 1900 to 1950 it increased 8.9 per cent per decade. Population growth has been particularly rapid in the newer nations, being three times greater in North America than in Europe during the past century.

In the underdeveloped regions of the world both birth rates and death rates are high. Until relatively recently their populations remained fairly constant. During the 20th century, however, death rates have fallen considerably in many of these areas and there have been sharp increases in population.

A century ago international differences in income levels were con-

siderably smaller than they are today. Before they began to industrialize, the countries that are now economically developed had a higher income level than the underdeveloped countries have today. On the other hand, some of the currently underdeveloped countries, such as China and India, had achieved a more advanced stage of development than Europe long before the 19th century.

The four factors of economic growth are labor, capital, nature and culture. Culture refers to the manner in which people live, including behavior patterns, thoughts and feelings, and the manner of expression. The most important component of culture is knowledge.

Capital is used in the orthodox sense of "produced instruments for use in further production" and includes machinery, factory buildings, means of transport, houses, schools, etc. Man produces through work and investment. Generally speaking, production varies with the amount of *labor* applied and *capital* invested.

Nature, like capital, comprises a wide variety of phenomena, including natural resources of all kinds, as well as climate. Because of widened human knowledge, certain materials are important today that were unheard of a century ago. Because of electricity, waterfalls became important, and because of knowledge regarding the atom, uranium has become important. Similarly, certain materials may lose economic significance. Thus, we now regard nature, as well as labor and capital, as a variable factor of production.

Factors vary

The growth of output cannot be attributed to any one factor of production because the factors vary simultaneously. As a rule, capital increases more rapidly than labor while nature is relatively constant for long periods, and culture develops in many different ways.

The growth of one factor of production, or the growth of total production, tends to promote the growth of other factors of production. One of the most important problems in the next few decades will be to make it possible for the world's poorer areas to make the leap from stagnation to self-sustained economic growth and, at the opposite end of the scale, to restrain certain retarding factors in some of the more highly developed countries.

Sometimes nature has become impoverished through soil erosion or through the exhaustion of raw material resources. Also, the shortening of working hours without offsetting increases in productivity reduces savings, thereby retarding economic growth. Business cycles, which seem to be inherent in industrial societies, tend to restrain growth during periods of depression.

The world's population has increased rapidly since World War II and there is no evidence that it will not continue to increase. It is likely that world population will double by the year 2000. Although the earth can feed at least double its present population, there will be economic and cultural difficulties in applying modern techniques of production in certain areas. There will continue to be problems of maldistribution of goods resulting in the accumulation of large food surpluses in some areas while elsewhere people go hungry.

If increased population is to be accompanied by rising levels of living, it will be necessary for new members of the labor force to achieve outputs that exceed their own consumption—a condition which may not be fulfilled in many underdeveloped countries. Growing demands for consumer goods in underdeveloped countries will be a check to savings and investments, and therefore to economic growth.

The population of the world in 1955 totaled about 2.7 billion; more than half of this population was in Asia. Oceania and the Middle East accounted for .5 per cent and three per cent, respectively. North America, the USSR, Latin America and Africa each accounted for about seven per cent, while Western Europe and Eastern Europe accounted for 11 per cent and four per cent, respectively.

North America, Oceania, the USSR, Latin America and Africa are sparsely settled areas, with less than 10 inhabitants per square kilometer. The comparable figure for Asia is 66, and for Eastern and Western Europe it is in excess of 80. The situation is particularly bad in Asia because of the large proportion of land that cannot be used for agricultural purposes.

Population estimates

In all probability the rate of population growth in the next 25 years will be upward in Latin America and Asia, and will remain at its present high levels in the Middle East and Africa. In general, there is a disinclination to control population in the underdeveloped regions. In Asia, only Japan, which can hardly be called an underdeveloped country, has achieved any notable results in this regard.

It is estimated that during the 1955-80 period world population will increase by about 1.5 billion, or about 1.8 per cent per year. In Western Europe population probably will increase about 15 per cent, in Eastern Europe about 28 per cent, and in North America, the USSR, Africa and Oceania about 50 per cent. In Asia the increase is estimated at 64 per cent and in the Middle East at 78 per cent. The greatest increase will be in Latin America where population will double.

These calculations are based on the assumption that death rates will continue to fall slowly in North America, Oceania, Western Europe, Eastern Europe and the USSR, and that fertility will remain unchanged. It is probable, also, that mortality rates will continue to decline in Latin America, the Middle East and

Asia, without any marked decline in birth rates.

In the more advanced regions—North America, Western Europe, Oceania, USSR and Eastern Europe—the proportion of persons in the productive age groups (16 to 64 years) will increase slightly. Since there will be a tendency toward shorter working hours, longer holidays and more time-consuming education, it is probable that the number of man-hours worked in these regions will remain constant. In the less advanced regions, however, there will be marked increases in population in the productive age groups, and no movement toward shorter working hours and longer holidays. Also, it is probable that women will be more extensively engaged in productive work than at present. For these reasons it is to be expected that there will be a substantial increase in the supply of labor in the underdeveloped regions.

These regions include most of the tropical areas, while, for the most part, the developed regions are in the temperate zones. An important phenomenon in the period under consideration will be the extent to which the tropical countries demonstrate the capability of paralleling the development of areas lying within the temperate zones.

Capital and production

One of the few clear relationships in the entire field of economic growth and development is that between increases in capital and increases in total production.

The poorer a region is, the more difficult it is for it to accumulate a surplus of production that it can use to increase its capital stock. In great measure the amount of capital available in various regions determines the differences in income levels among them.

In terms of constant dollars (1955 purchasing power) total accumulated capital ranges from a little over $1,000 billion in North America and $850 billion in Western Europe to a low of $35 billion in the Middle East. On a per capita basis North America also heads the list with capital amounting to $5,600 per person. In Western Europe per capita capital amounts to $2,900 and in the USSR to $1,650. In the Middle East the figure is $350 and in Asia only $200.

Slightly more than 55 per cent of all new net investment in the 1954-56 period was in North America, Western Europe and Oceania. A little over 25 per cent was made in the USSR and Eastern Europe, and only 15 to 20 per cent in the rest of the world—where almost 70 per cent of total world population is concentrated. The large capital investment in North America and Western Europe has not been brought about by a large ratio of domestic product going into new investment, but rather by a small percentage of a much larger base.

The proportion of net product going into net investment is 11 per cent in North America and 13 per cent in Western Europe. In Oceania, however, it is 25 per cent and in the USSR 20 to 25 per cent. In Africa it is about 15 per cent.

International capital movements prior to 1914 were brought about by special circumstances that are not likely to recur. In those days the creditor countries were the suppliers of labor in the form of emigrants, as well as of machinery and technical skills. They also provided borrowing countries with markets for raw materials and food. It was natural that the process of economic growth in overseas areas which was made possible by European emigrants, engineers and machinery should be financed by European (principally British) capital.

Exporter of capital

Today there are few underpopulated areas that are rich in resources. Furthermore, the United States today, in contrast to Great Britain in 1914, is not a natural purchaser of the goods that the underdeveloped countries can export. Nevertheless, during and since World War II the United States has become an important exporter of capital.

Since the war the USSR also has become an important exporter of capital, most of it going to Eastern Europe and countries under Communist influence in Asia. Loans made to Communist countries by the USSR totaled $2 billion in the decade 1945-55. Loans promised to non-Communist countries by the USSR to the middle of 1959 amounted to about $3 billion, of which about $1 billion was granted in 1958.

Total capital movements among the nine regions amounted to a little over $4 billion per year from 1954 to 1956, which is a fairly small amount compared with the total net domestic product of the principal exporting regions. In fact, it amounted to less than one per cent of the net product of North America and the USSR. On the other hand, the exported capital is important to the recipient countries. Imports of capital by Latin America, for example, represent about one-sixth of all investment in the area, while foreign capital invested in Africa and Asia (excluding China and Japan) accounts for about one-third of total investment in the area.

The capital of North America, the authors estimate, will increase from $1,015 billion in 1955 to approximately $3,000 billion in 1980. Next in importance is Western Europe where capital will increase from $850 billion in 1955 to over $2,000 billion in 1980. In the USSR capital will grow from $325 billion to $1,440 billion during the same period. The smallest growth of all will be in the Middle East—from $35 billion to $111 billion.

The increase in intangible investment will be considerable, particularly in certain of the underdevel-

oped areas. Such investment will take the form of research, education and general enlightenment which cannot be measured quantitatively or expressed mathematically.

Rapidly growing world population will give rise to a big increase in the demand for food. Per capita calorie consumption in Asia at present is less than two-thirds of that in the developed regions, and the consumption of proteins is even smaller.

The production of food can be expanded in four ways. The first is to extend the agricultural land area, which is feasible in the USSR, Latin America and Africa, but not in North America and Asia. The global increase in agricultural land area may amount to as much as 675 million hectares, or about 18 per cent of the world's present agricultural land area.

The second way to increase food supply is to intensify the use of fertilizer, as has been done for some time in Western Europe, North America and Oceania. A third way is by improved use of water, a method which will have its greatest effect in the subtropical and tropical areas. The fourth way is by improving agricultural methods and by selecting more productive crop strains.

From the global point of view a considerable increase in vegetable production will have to be achieved if the food requirements of the expanding world population are to be met. Western Europe will continue to be a grain importer while North America and Oceania will continue to be exporters, with increasing quantities going to Asia.

Primary energy

Coal, oil, natural gas and water power produce about 85 per cent of the world's primary energy. Coal and lignite account for about 50 per cent of the total world consumption of commercial fuels, while oil and natural gas account for a little over 40 per cent. Water power accounts for only six per cent. North America alone consumes over 40 per cent of all commerical fuels. This region, together with Eastern Europe, Western Europe, the USSR and Oceania, accounts for 85 per cent of total fuel consumption. Yet these areas together contain less than one-third of the world's population.

There will be no great shortage of energy resources in the 25-year period under consideration. North America, the USSR, Oceania, and Western and Eastern Europe, for the most part, are amply supplied with energy resources. The underdeveloped regions, especially Asia, however, are relatively poor in energy resources.

Oil and natural gas will supply a little over half the total consumption of primary fuels in the 1955-80 period. By 1975 the United States will require as much as 1,650 million barrels of imported oil annually. North America has large resources of oil shales and tar sands which can be exploited should the price of oil rise markedly. It is estimated that these reserves could increase North America's recoverable resources of liquid fuels by the equivalent of over 20 billion tons of coal. Western Europe is coming to depend increasingly on North Africa for its oil, which is cheaper to transport than oil from the Middle East. The USSR has abundant oil resources for its own needs as well as for those of Eastern Europe. There is plenty of oil in the Middle East and in Latin America.

Marginal source

Water power is a marginal source of energy. North America, Western Europe and the USSR have relatively large resources of such power, an important part of which will have been put to use by 1980. Of all the regions, Africa has the most abundant water power resources—probably more than one-quarter of the world's total. Much of it is located in tropical Africa where the technical and economic conditions necessary for its utilization are not yet present. It is not likely that the importance of water power, relative to other energy resources, will change markedly in the period under consideration.

Nuclear energy will be utilized on a larger scale than at present only when it becomes economically competitive to do so. The conventional fuels, particularly oil, will remain competitive for some time to come. Atomic power can be used economically only when the plants in which it is employed are fully utilized. This confines its use to highly industrialized regions, such as Western Europe. Uranium occurs in most of the nine regions, but most of the presently known reserves are in North America, Africa (Congo and South Africa), Oceania, and Western and Eastern Europe.

Iron and steel are likely to continue to be important. The five developed regions, especially North America, Western Europe and the USSR, will continue to account for the greater part of all iron and steel production and consumption between now and 1980. The USSR has abundant reserves of iron ore, but Eastern Europe has to depend largely on the USSR for its supply. Latin America has large reserves of high-grade iron and other metals. However, its supply of coking coal is limited.

In Asia, both India and China have substantial reserves of iron. China has large coal deposits also, but India does not. Japan is poor with respect to both iron and coal. Africa, like Latin America, has large resources of iron ore, but little coal.

The fact that the consumption of all important minerals is increasing rapidly suggests the eventual exhaustion of many of the resources that we know and use today. However, exhaustion will not occur during the 25-year period under consideration.

Cultural factors are interwoven in varying measure in all aspects of economic growth, whether the factors be religious, social or political. By their very nature cultural factors cannot be measured. Thus, the Catholic Church does not exert the same influence in each of the countries in which it is dominant. In some areas it has promoted economic growth, while in others it has retarded it. One obvious illustration of the influence of the Church is its official attitude toward birth control.

There is far more illiteracy in the underdeveloped than in the developed regions. Latin America, which among the underdeveloped regions has advanced furthest, also has made the greatest strides in eliminating illiteracy. It is impossible to forecast the weight that the various cultural factors will have on economic development. History shows that natural resources and capital alone do not account for economic development. They must always be considered in conjunction with social structures and other cultural factors. ■

The City. Paul Ferris. 224 pp. New York: Random House. $5.00.

• Although the romance of business is a much overused term, it applies best perhaps to the square mile making up the "City" of London. A combination of secrecy, the traditions remaining from the British-dominated commercial world of the 19th century, and such ceremonial distinctions as having its own Lord Mayor and requiring the Queen to ask permission to enter, surround the London financial center with an aura not noticeable in Wall Street.

This work by the British free-lance writer Paul Ferris manages to capture that aura while explaining in understandable detail the operations of the London Stock Exchange, Lloyd's of London, the gold market, the discounting of bills and the old merchant banks. Two events—the sterling crisis of 1957 and the purchase of Harrod's department store—are also described in detail.

The British use of experience and diplomacy to get what they want is vividly illustrated by the little-known story of how Lloyd's avoided a $30-million loss. Without a gunboat to their name they persuaded the Indonesian government to release Dutch shipping insured by them and, in the process, even gained for themselves substantial Indonesian business.

Although lively and informative, *The City* is not meant to be theoretical, and it wisely does not attempt to explain the underlying economic and financial factors that lie behind these operations. Nor are there many comparisons with U.S. counterparts which would be of use to American readers. But within its set limitations *The City* is as competent a book on the subject as is likely to come along for some time.

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Higher Education in the United States: The Economic Problem. Edited by Seymour E. Harris. 252 pp. Cambridge, Mass.: Harvard University Press. $5.50.

• Students and families faced with the problem of paying for a college education will find much of interest in this collection of papers presented at a 1958-59 Seminar on Higher Education at Harvard. Forty social scientists and educators, and one undergraduate, discuss rising costs and tuition, government aid, faculty status, educational experimentation, the relation of economics and educational values and college investment and endowment policies.

Of most immediate interest to many are the suggestions in the paper by Harvard economist Otto Eckstein for expanded prepayment and postpayment plans for meeting college expenses. Education today seems to be the one product for which the consumer usually pays cash and for which neither government nor business provides any substantial amount of credit. Prepayment plans, the more novel idea, seem of particular interest to families who can afford to make advance payments over an extended period before college expenses hit them. These premiums, in turn, earn interest which can be applied to reducing later payments.

The papers on experimentation are unfortunately limited in scope. Programs that have existed for years at some colleges are discussed only in light of their introduction at another. Even more disappointing is the coverage of the student's financial gain from attending college. The well-known fact that the average college graduate makes a more-than-average income is presented with statistics made largely irrelevant by the factors not discussed.

It is a pleasure to turn from such papers to Harvard psychologist B. F. Skinner's brief but informative account of the use of teaching machines in education and Dartmouth Treasurer John F. Meck's practical consideration of the proposal to permit income tax credits for college tuition payments.

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Housing and Economic Progress. Lloyd Rodwin. 217 pp. Cambridge: Harvard University Press. $7.50.

• "The housing of the well-to-do has its biographers;" says the author of this study, "and there are countless reports about the slum dwellers. . . . But the housing problems of middle-income families have no chroniclers." Rodwin, a professor of land economics at M.I.T., has explored this neglected area and throws new light on current problems in housing and urban renewal. His thesis is that most of our housing problems stem from rising income and rising standards of demand coupled with inadequacies in the mechanism for supplying housing.

Using past housing experiences of Boston's middle-income families as basic source material, the author presents new data on housing costs and standards for middle-income families. He also studies the impact of building and loan associations, government policies controlling rent and home ownership, and neighborhood changes wrought by economic progress.

Challenging some widely accepted views—e.g., that rent controls dampen new construction and promote a less efficient use of housing resources—this book makes an important contribution to the study of housing problems.

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The New Capitalists. Louis O. Kelso and Mortimer J. Adler. 109 pp. New York: Random House. $3.50.

• The authors of *The New Capitalists* advocate a change in the method of financing new capital investments. In brief, it is to compel corporations to distribute to their shareholders the profits they earn and to cease financing expansion out of retained profits. Instead, new capital funds would have to be raised from investors. Concurrently, "new capitalists" would be created through an organization similar to the Federal Housing Administration which would insure portfolios of new stocks. These portfolios would be bought on time by individuals.

Kelso, a corporation and financial lawyer, and Adler, a former professor of the philosophy of law at the University of Chicago and now President of the Institute for Philosophical Research, assert that these changes would produce enormous benefits. They hold that this system would create a large class of persons who would be able to live on their income from investments and who could therefore engage in pursuits higher than mere money-making.

It is hard to see how the authors' proposals would accomplish this. There is not, at present, a large class of people with sufficient income to build up an estate on which they could live by buying stocks on time.

While the changes that Kelso and Adler advocate may have merit, their claims that their proposals would transform society, belong more to the realm of wishful thinking than economics.

THE DOMESTIC ECONOMY—Despite the recession, most predictions of future U.S. economic growth by politicians, the press and economists remain optimistic. One of the most scholarly of such predictions is Long-Range Projections for Economic Growth —the American Economy in 1970 by the highly respected economic research group, the National Planning Association.

The NPA's projections seem to offer vistas of what some old-time unionists called "More and more, sooner and sooner." Our half-trillion gross national product is expected to reach $790 billion by 1970. The gloomy beginnings of the Sixties are to give way to an economy where the proportion of households making over $7,500 a year in 1958 prices will have more than doubled, from around 20% to around 45%.

> But behind such projections lie policy decisions, which must be made correctly if these expectations are to be realized, and unemployment dangers, which will be present even if they are realized. Within the over-all figures lie disappearing jobs and an assumption of political wisdom.

The study assumes a low (3.6%) rate of unemployment in 1970. But the prospect of shifting job opportunities, and what this means in terms of depressed areas and long-term unemployment, makes this particular projection seem doubtful. Jobs in the services will continue their long-term upswing (from 19.9% to 23.4% of the civilian labor force). Proportional increases can be looked for also in construction (up from 6.3% to 6.8%) and in manufacturing (up from 26.3% to 28.7%).

But even within the service field job patterns will change substantially, leaving unemployment in some areas. Employment in communications, finance and insurance can be expected to fall off not only proportionately but absolutely. Jobs in real estate will probably barely hold their own. Within services, however, these losses will be more than made up by sharp increases in the proportion of executive, professional, repair, personal service and other specialized jobs.

Major job losses will continue in agriculture and transportation, expected to fall from 9.8% to 7.4% and from 4.6% to 3.1% of the civilian labor force respectively. Trade, mining and civilian government jobs may decline somewhat proportionately, but not in absolute numbers.

> When these job changes are put together with the expected rise in the civilian labor force, from 71,600,000 in 1960 to 83,600,000 in 1970, and with the major population shifts within the United States, it seems clear that the problems of depressed areas and structural unemployment will continue to grow.

Optimistic projections depend on the wide variety of noneconomic assumptions. Peace, or even what passes for it today, is obviously the most necessary condition. But progress also depends on two political questions that have to be decided. First, a large expansion of the private sector can only take place if public services such as education, highways, water supplies and urban renewal keep pace.

> Today such services are primarily the responsibility of the states, although the federal government monopolizes most tax sources. Of the two possible solutions, Congress has shown almost no interest in returning tax sources to the states and little in expanding the federal role in such services.

The second political problem is preventing an inflation that would interfere with economic growth without causing stagnation and unemployment. The very stating of these problems shows how difficult achieving these goals may prove to be.

easing the gold outflow

ECONOMIC NEWS NOTES—The Kennedy Administration has apparently decided to go slow on its proposal to cut the limit from $500 to $100 on the value of goods tourists may bring home duty free.

The proposal, which is part of the Administration's program to ease the balance of payments deficit, appeared ready for quick Congressional approval before the White House asked that it be sent back to the State Department for "further study."

The State Department decided to hold off on the measure, which would have cut U.S. tourist spending between $140 million and $175 million annually, because of strong objections from nations benefiting from these expenditures—particularly Canada and Mexico.

Another key measure in the Kennedy program to ease the gold outflow easily passed the House Ways and Means Committee. It exempts foreign central banks from U.S. taxes on the interest from their investments in U.S. government securities.

This measure will encourage these banks to keep their funds in government securities instead of buying gold from the dwindling U.S. stockpile.

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monetary vs. fiscal policy

The Federal Reserve Bank of New York feels that, in the future, the government should place less reliance on monetary policy and more emphasis on fiscal policy in counteracting ups and downs in the economy.

Heavy reliance on fiscal policy means rapid increases in government spending coupled with tax cuts to fight recessions and the building of budgetary surpluses in boom times.

The disenchantment of Federal Reserve authorities with their chief weapon against recessions—monetary policy—stems from their experience in cutting interest rates when the current recession began last year.

While the lower interest rates undoubtedly eased the domestic recession, they aggravated the already serious balance of payments deficit by driving dollars into higher yielding investments abroad.

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Landrum-Griffin loophole?

The National Labor Relations Board has ruled illegal a device widely used by the Teamsters Union to circumvent the so-called "hot cargo" provision of the Landrum-Griffin Act.

Hot cargo contracts between unions and employers forbid the company to handle goods the union deems "hot," such as the products of a nonunion or a strike-bound company. Such contracts were declared illegal by the Landrum-Griffin Act.

The Teamsters tried to circumvent the law by having union members refuse "on their own" to handle such cargo with the employer tacitly agreeing not to discipline them.

The NLRB decision will undoubtedly be appealed to the federal courts since not only the Teamsters, but much of organized labor, regard the hot cargo device as an important weapon against nonunion firms. If, in the end, the courts overrule the NLRB, there will be strong pressure on Congress to plug the loophole.